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THE ESSENTIAL TAX GUIDE

2023 EDITION

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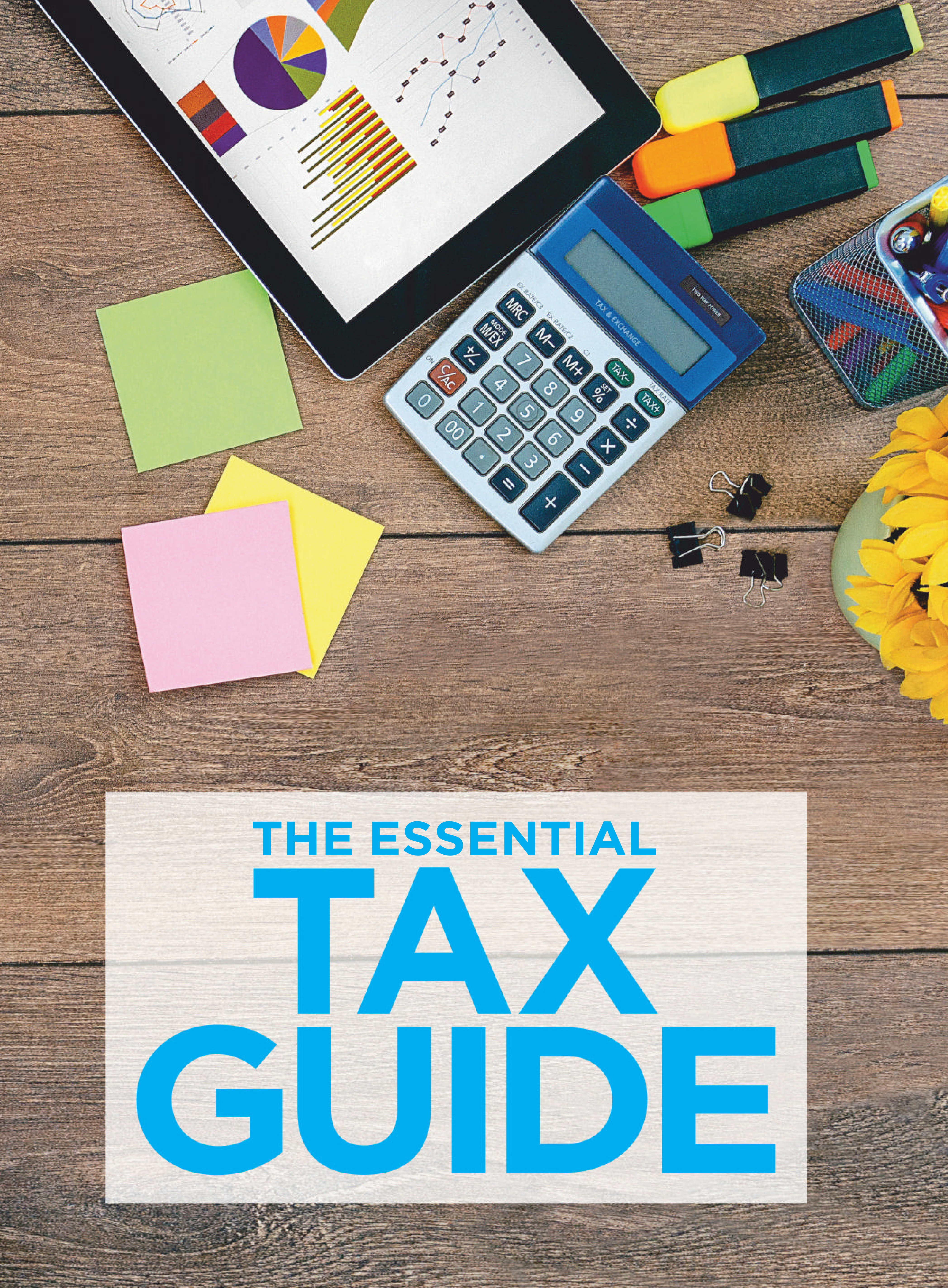

THE ESSENTIAL TAX GUIDE

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DESIGNED TO HELP YOU SAVE THE MOST ON YOUR TAX RETURN

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This magazine is intended to give general tax planning frameworks and advice. Please ensure that your tax return is filed to be an accurate assessment of your personal situation. The publishers are not advocating or suggesting individuals or companies should take any deductions or credits to which they are not legally entitled. Information herein is not a complete list of all tax rules, and laws may have changed since publication. This magazine is for informational purposes only. The publishers assume no liability should you be audited or found to be in breach of tax laws after purchasing this magazine. Please consult with a tax professional on your federal, state and local taxes before filing your return.

SECTION

01

Income Tax 101

Getting acquainted
with the U.S. tax code

The U.S. Uses a "Progressive" Tax Code—But What Does That Mean?

Income tax–a tax on money made from jobs and other sources–is the single largest revenue source for the United States government. Originally controversial, it has since become the cornerstone of the U.S. tax code and is used to pay for public goods like roads, schools, libraries and first responders. While tax rates are always changing, the U.S. tax code has been "progressive" since the 1860s. Here's what that means for you.

Progressive vs. Regressive vs. Flat Taxes

Under a progressive tax code, people who make more money are taxed at a higher rate than those who make less money. For example, if people who make $10,000 per year have to pay 10% of their income in taxes, while those who make $50,000 per year have to pay 20%, and those who make $100,000 per year have to pay 30%, that's a progressive tax.

A regressive tax is the opposite of a progressive tax: People who make less money are taxed at a proportionately higher rate than people who make more money. Under a regressive tax code, someone making $100,000 per year would owe a smaller percentage of their income in taxes than someone making $10,000. Meanwhile, a flat tax–say, 10% of income–imposes the same proportional tax on everyone, regardless of their income. In this scenario, higher earners and lower earners pay taxes that are roughly equivalent to one another. A flat tax would make filing taxes easy–but perhaps not as fair for all U.S. taxpayers. As complicated as doing your taxes can be, there are good reasons for having a progressive tax code. First, it increases government revenue by collecting more from those who can afford to pay more, generating more money for important public services. Second, it eases the burden on lower earners and gives them a greater chance to achieve success. Third, it helps to correct imbalances that occur due to rules that result in dividends and capital gains being taxed at a lower rate than other forms of income.

PRO TIP

With taxes, "progressive" has nothing to do with politics. It means the tax rate "progresses" from low to high.

Understanding Tax Brackets: Not All Income Is Taxed the Same

Our progressive tax works by placing earners into different tax brackets according to how much money they make. There are currently seven official federal tax brackets, with rates ranging from 10% to 37%. The dollar amounts that define the brackets change depending on whether you're a single filer, a married joint filer (or qualifying widow/widower), a married separate filer or a

The tax brackets that apply to you depend on your filing status.

head of household filer. To get an idea of how the brackets change based on your filing status, see the 2022 TAX BRACKETS table, below.

Why This Matters: Understanding Your Marginal Tax Rate

Determining which tax bracket you fall into isn't as simple as just adding up your total income and finding the correct row on the table below. Instead, you must calculate your taxable income (sometimes referred to as "adjusted gross income"), which is your total income minus adjustments, deductions and exemptions. U.S. tax filers can choose between subtracting a standard deduction or a list of itemized deductions. The standard deduction is a fixed dollar amount each year, while itemized deductions can include child care expenses, charitable giving, education expenses, select business costs, mortgage interest, certain medical expenses and more. If you're near the lower end of a tax bracket, deductions can not only reduce your taxable income but send you into a lower bracket, significantly reducing the taxes you owe.

Once you've determined your taxable income, it's important to understand that not all of the income will be taxed at the same rate (unless you fall into the tax bracket for the lowest earners). Say your taxable income is $75,000. The first $9,950 of this will be taxed at 10%, the rate of the first tax bracket. Earnings between $9,951 and $40,525 will be taxed at 12%, the rate of the second tax bracket. Only the remaining $34,475 of earnings will be taxed at 22%, the rate of the third tax bracket.

The top tax bracket you fall into is your "marginal tax rate." So someone with a taxable income of $75,000 has a marginal tax rate of 22%, even though only $34,475 of that income will be taxed at that rate. Although there are seven main tax brackets, the percentage of income owed varies, even between taxpayers in the same bracket.

PRO TIP

For most tax issues, your salary isn't important. Focus instead on your adjusted gross income, also called AGI.

2022 TAX BRACKETS

Tax Rate	Taxable Income			
	Single	**Married Filing Jointly**	**Married Filing Separately**	**Head of Household**
10%	$0 to $10,275	$0 to $20,550	$0 to $10,275	$0 to $14,650
12%	$10,276 to $41,775	$20,551 to $83,550	$10,276 to $41,775	$14,651 to $55,900
22%	$41,776 to $89,075	$83,551 to $178,150	$41,776 to $89,075	$55,901 to $89,050
24%	$89,076 to $170,050	$178,151 to $340,100	$89,076 to $170,050	$89,051 to $170,050
32%	$170,051 to $215,950	$340,101 to $431,900	$170,051 to $215,950	$170,051 to $215,950
35%	$215,951 to $539,900	$431,901 to $647,850	$215,951 to $323,925	$215,951 to $539,900
37%	$539,901 or more	$647,851 or more	$323,926 or more	$539,901 or more

How to Know What's Taxable

Many people are already familiar with income taxes, since they are required to file a tax return every year. But that's just one piece of a bigger tax picture. Some taxes are automatically deducted from your paycheck or paid when you buy something from the store. Others only apply under special circumstances. Plus, you may not be taxed on all of your income, and the income you are taxed on may be taxed at a few different rates. It can be helpful to have a firm grasp on the many ways you're being taxed, and where those taxes are going, as you prepare your return this year.

Income Tax vs. Other Taxes

In addition to federal income taxes, most states–though not all–charge an additional state income tax, as do some municipalities and school districts. Here are some common taxes you might pay:

Payroll Taxes

These taxes, also known as "employment taxes," are automatically taken from your paycheck to pay for Social Security and Medicare. For the 2022 tax year, workers had to pay 6.2% of their first $147,000 of earnings toward Social Security, and 1.45% toward Medicare. Employers are required to match these amounts in both cases.

Sales Taxes

Sales taxes are collected as a percentage of a purchase of goods or services. They are charged only on the state and/or local level, and the tax rate varies from place to place. Some states have no sales tax, while others may levy a combined local and state sales tax upwards of 10%. Sales taxes are an example of a regressive tax, since lower earners end up spending a larger proportion of their earnings on them compared to higher earners.

Excise Taxes

Excise taxes are similar to sales taxes in that they are charged when you make a purchase, but they only apply to certain goods and services. These often include so-called "sin products," such as alcohol and cigarettes, but one of the most commonly paid excise taxes is on gasoline, which is taxed by the federal government. Excise taxes are often applied on top of sales taxes.

PRO TIP

Some of the taxes you pay are deductible! You can deduct up to $10,000 in state and local income taxes on your federal return.

Property Taxes

Property taxes are levied on the state and/or local level, most often on real estate but sometimes on other large purchases, such as vehicles. These taxes are calculated based on the property's market value, and usually go toward local or county services, such as garbage collection, road maintenance and fire protection.

Estate Taxes

These are taxes on the assets you pass on to your beneficiaries after your death, including cash, securities, insurance, real estate and business interests. Not everyone has to pay estate taxes, though: For 2022, only estates worth more than $12.09 million are taxed (in 2023, it will be $12.92 million), and only the value of the estate that exceeds that figure is subject to taxation. Some states also charge their own estate taxes.

Gift taxes are applied if a gift exceeds the annual exclusion.

Gift Taxes

Gift taxes are similar to estate taxes, but apply to gifts you make to another person or entity while you're alive. Only high-value gifts are taxed, and the annual gift exclusion allows you to make gifts at or below a certain value to as many people as you want. For 2022, the annual gift tax exclusion is $16,000 per recipient; it's $17,000 for 2023.

Taxable vs. Nontaxable Income

In general, the income you receive from any source is subject to federal taxation. This includes wages, salaries, commissions, interest, stock options and dividends, unemployment compensation, rental income and alimony. It also includes so-called "fringe benefits," such as company-paid gym memberships, company vehicles and holiday cash gifts from your employer. And it includes other forms of income, such as canceled or forgiven debts or loans, money from offshore accounts, property you obtained through barter, and payments from employer-paid disability or sickness and injury plans.

PRO TIP

Less than 0.1% of estates owed any estate taxes in 2018, according to the Center on Budget and Policy Priorities.

A few types of income are exempted from federal taxes. Knowing these exceptions could potentially reduce your tax bill. Some of the most common forms of nontaxable income can include:

Inheritances, Gifts and Bequests

Most inheritances and gifts you receive are not taxed. Note, however, that taxes are owed on estates that exceed the federal exemption figure (see entry at left).

Life Insurance Payouts

Any money you receive from a life insurance policy when someone dies is nontaxable. If you cash out a life insurance policy, though, that money is generally taxable.

Qualified Scholarship Money

Note that while money from a qualified scholarship is generally not taxable, any of that money that goes toward room and board is.

Other Nontaxable Income

Some of these sources include municipal bond interest, most health care benefits, child-support payments, welfare payments and cash rebates on purchases. Reduce your taxes by taking advantage of the full range of exemptions and deductions.

Understanding Tax Credits and Deductions

When filing your taxes, you'll want to take advantage of all tax credits and deductions available to you. This can help reduce your tax bill significantly. However, it's important to understand the difference between credits and deductions. One difference is that credits provide a dollar-for-dollar reduction of your taxes, while deductions provide an indirect tax reduction by lowering your taxable income, thus reducing your total tax bill. There is a wide variety of credits and deductions available, though which ones you qualify for will depend on your circumstances.

Tax Credits

Tax credits directly reduce the amount you owe–a $500 credit means you pay $500 less in taxes. Credits are typically offered to help offset certain expenses, including buying a first home, child care costs, adopting a child, caring for elderly parents, or energy-efficiency projects, such as installing solar panels. Business owners can also take advantage of tax credits.

Tax credits are less common than tax deductions. They are worth varying amounts, and whether or not you qualify will be based on factors such as filing status, age, employment and education. There are two main types of tax credits, which operate in different ways:

Refundable Tax Credits Are the Most Versatile Credits You'll Encounter

They are subtracted in full from the amount of taxes that you owe after deductions, and can be used to increase your refund. These credits offer the unique ability to reduce your tax liability to less than zero. Say you owe $500 in taxes, and you're eligible for a refundable credit of $800. Your tax liability will be reduced to negative $300, and the IRS will give you a $300 refund. Some of the most common refundable credits include the additional child tax credit, the earned income tax credit and the health coverage tax credit.

Nonrefundable Tax Credits Reduce the Amount of Your Income Tax Up to the Amount of Income Tax You Owe

But a nonrefundable credit can't reduce your tax liability below zero. Nonrefundable credits expire in the year that you claim them and can't be carried over to the next year. Common ex-

PRO TIP

Be sure to use all the deductions and credits you're entitled to and keep all the documentation to back them up.

amples include the adoption tax credit, the child tax credit, the foreign tax credit and the mortgage interest tax credit.

Understanding Tax Deductions

Tax deductions reduce your income tax bill indirectly by lowering your taxable income. The amount you receive in tax deductions is dependent on your marginal tax rate, also known as your tax bracket. For example, if you are in the 24% bracket, then a $1,000 deduction will reduce your taxes by $240, or 24% of $1,000.

There are two types of deductions: the standard deduction and itemized deductions. As a taxpayer, it's best to use whichever amount is greater.

Standard Deduction

Most people take the standard deduction. The amount you can claim is based upon your filing status, and that amount is adjusted for inflation each year. See the STANDARD DEDUCTIONS table, below, for 2022 figures.

STANDARD DEDUCTIONS

Filing Status	Standard Deduction
Single	$12,950
Married Filing Jointly and Surviving Spouse	$25,900
Married Filing Separately	$12,950
Head of Household	$19,400

Itemized Deductions

You may choose to itemize if the total of all your deductions is greater than the standard deduction. You can only deduct expenses determined by the IRS, which include some medical expenses, some state and local taxes, mortgage interest, investment expenses, charitable contributions and some job-related equipment; all require documentation.

The Impact of Deductions and Credits

Various tax credits and deductions can affect your tax bill in different ways. The following table illustrates the impact of deductions and credits of the same value for four different taxpayers.

See the RUNNING THE NUMBERS table, below. The taxpayer with a 0% tax rate has no taxable income, so they can only take advantage of a refundable tax credit, and only if they have earned income. (Their taxable income could have been reduced to zero by tax deductions.) Because they're paying no taxes, nonrefundable credits and tax deductions cannot reduce their tax bill.

A taxpayer in the 10% tax bracket could take advantage of the full refundable credit, but only a portion of the nonrefundable credit; that credit cannot reduce their income tax to below zero. The maximum income tax someone in the 10% bracket will pay is $995, so the $1,000 nonrefundable credit can only reduce taxes by that amount. The deduction for someone in the 10% bracket is $100–10% of $1,000. Filers in the 24% and 35% brackets can take full advantage of both credits for a deduction of $240 and $350, respectively. Before taking any tax credits or deductions, check IRS rules to make sure you qualify.

RUNNING THE NUMBERS

Single Filer Tax Rates	Value of a $1,000 Refundable Credit	Value of a $1,000 Nonrefundable Credit	Value of a $1,000 Deduction
0%	$1,000	$0	$0
10%	$1,000	Up to $995	Up to $100
12%	$1,000	$1,000	Up to $120
22%	$1,000	$1,000	Up to $220
24%	$1,000	$1,000	Up to $240
32%	$1,000	$1,000	Up to $320
35%	$1,000	$1,000	Up to $350
37%	$1,000	$1,000	Up to $370

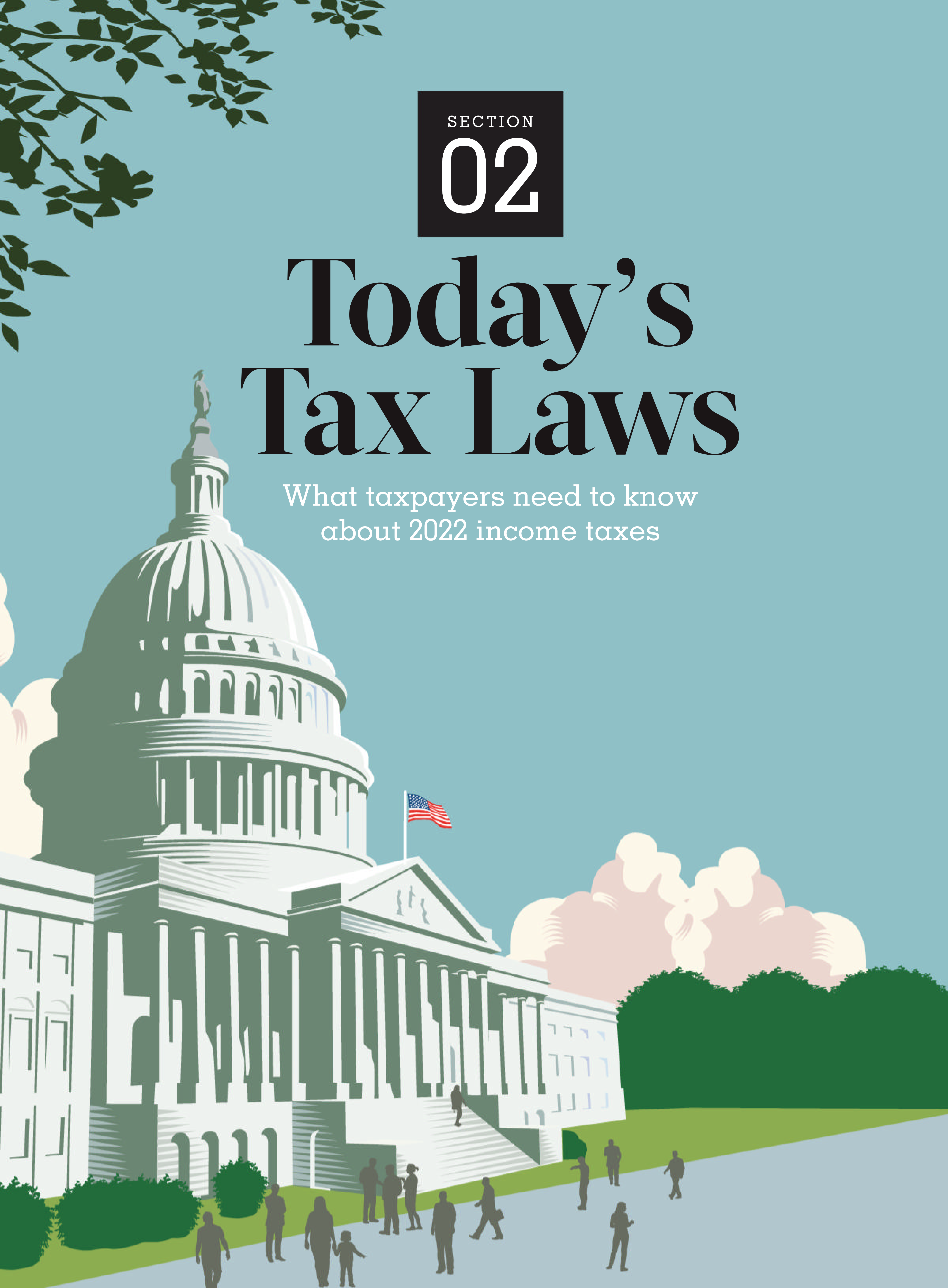
Eligible single parents can file as head of household for a larger standard deduction.

SECTION

02

Today's Tax Laws

What taxpayers need to know about 2022 income taxes



What Are the Tax Implications of a Career Change?

Starting a new job or leaving the workforce entirely can have a big impact on your taxes.

In 2021, an astonishing 47.8 million people left their jobs, marking the start of what experts call the Great Resignation. This continued into 2022 with millions of Americans leaving their jobs every month. This workforce exodus had a number of triggers. Some found greener pastures in better jobs. Some retired early, and others moved into more of a caregiver role at home as the COVID-19 pandemic forced children to homeschool, for example.

Whatever the reason for a job change, career shifts can have a big impact on your taxes. So if you find yourself among the millions who've switched jobs, left the workforce, or you're even thinking about a move, get familiar with these five tax considerations.

Higher Salary

If you've moved to a better paying job, your new salary may bump you up into a higher tax bracket. You'll need to fill out a new W-4 and you may want to withhold more to avoid being hit with a higher tax bill. You may also want to consider what you can do to temper higher taxes, such as saving more in tax-advantaged savings accounts, including 401(k)s, IRAs or health savings accounts.

What to Do With Your 401(k)

It might be tempting to cash out your 401(k) when you leave a job, but that can trigger taxes and penalties if you're younger than 59½. Cashing out should only be done as a last resort if you need the money for an emergency.

If you have at least $5,000 in your 401(k), you can leave your account with your old employer where your savings will continue to grow, though you will no longer be able to contribute to the account. This option may not be ideal, as you may be prone to forget about your account, and it can be tough for you to learn about changes to the plan if you no longer work for the employer who holds it.

Another option is to roll over your 401(k) into your new employer's plan or into an IRA. Not all employers will accept a rollover from a previous job, so check with your new employer before deciding what to do. Some employers may also require you to put in a certain number of days on the job before being eligible to participate in a retirement savings plan, which could delay rollover plans.

If you decide to roll over your account, you can have the administrator of the last plan conduct a direct transfer by depositing your funds directly into whatever new plan you select. Or you can choose to receive the balance of your old account as a check. In this case, you must deposit the check into your new 401(k) within 60 days to avoid paying income tax and a 10% early withdrawal penalty.

Remember: cashing out your 401(k) can lead to penalties.

Additional Tax Forms

If you've changed jobs, be on the lookout for multiple W-2s and other tax forms as you gear up to file your taxes. Employers are required to send W-2s before the end of January, so you should receive the final W-2 from your old employer by Jan. 31 of the year following your job change.

You may also receive other important tax forms, like a 1099-G if you received unemployment compensation or a 1099-R if you cashed out or rolled over your retirement account.

Separation Pay

You may be entitled to a severance package, even if you leave your job voluntarily. In most cases, you can also expect to receive a payout of accrued vacation time. Both severance and paid out vacation time are treated like income and subject to the same taxes as regular wages.

Taxes and Penalties for Early Withdrawals From Retirement Accounts

If you've decided to retire early, understand that early withdrawals from retirement accounts may trigger taxes and penalties. As mentioned above, those younger than 59½ may have to pay a 10% penalty on any withdrawals in addition to income tax. There are certain situations, however, in which you can make early withdrawals penalty free. Consider the rule of 55. This is an IRS provision that allows you to access funds in your 401(k) if you leave your job at age 55 or older. To qualify, you must leave your job in the calendar year you turn 55, or later. If you left your job before age 55, you will not be able to take distributions early without paying penalties.

PRO TIP

Are you moving for a job? Be aware of capital gains taxes if you have to sell your house.

Keep in mind that even if you are able to avoid early withdrawal penalties, you will have to pay income tax on any distributions from a 401(k) or traditional IRA. Only withdrawals from Roth accounts are tax free.

The COVID-19 pandemic changed many aspects of American work life and no doubt has contributed to seismic shifts in the workforce. If you've changed careers for any reason, you may need to take some additional steps to avoid a bigger-than-usual tax bill.

Taxes and Unemployment Benefits

Don't let your taxes and unemployment checks lead to an unpleasant surprise at tax time.

Though the U.S. economy has regained the 25 million jobs it lost in the pandemic, in most states employment still trails behind pre-pandemic levels. Many have turned to unemployment benefits to help them make ends meet.

Unemployment checks can be a lifeline in difficult times, but taxpayers are still expected to pay some of that money back to the government in the form of taxes. Planning ahead can save time and money.

Making Payments

Unemployment benefits paid in 2020 were treated differently for tax purposes due to the American Rescue Plan, which was signed into law in March 2021. That excluded qualifying individuals (and each spouse if married) from paying taxes on up to $10,200 of unemployment benefits. But now we're back to business as usual. If you received unemployment benefits in 2022, plan to pay taxes on that money when you file your income taxes in 2023.

You can have your state's unemployment agency withhold a flat 10% from your unemployment check to help cover taxes. But that isn't always enough, and underpaying can lead to stiff penalties if you wind up owing $1,000 or more when you file your return.

To avoid underpayment penalties, prepay at least 90% of your taxes for the current year, or 100% of the tax on your previous year's return, whichever is smaller. Make those payments quarterly using Form 1040-ES. Or you can make payments on your phone via the IRS2Go app, or by visiting irs.gov/payments. The IRS provides a useful tax-withholding estimator on its website that can help you figure out how much you'll need to pay. If your income changes during the year–say you go back to work–be sure to revisit this tool and recalculate how much you should pay.

State and Local Taxes

Each state treats unemployment income differently when it comes to taxes. If you live in Alabama, Alaska, California, Florida, Montana, Nevada, New Hampshire, New Jersey, Pennsylvania, South Dakota, Tennessee, Texas, Virginia, Washington state or Wyoming, your unemployment income won't be subject to any state taxes.

If you live in Indiana or Wisconsin, a portion of your unemployment benefits will be subject to tax. Other states may treat unemployment insurance as regular income and tax it accordingly. Visit the website of your state's department of revenue to find out what income taxes your state requires. Additionally, your county, city or town may levy income taxes of their own. Check with your local jurisdiction to see what you may owe.

Budgeting for Taxes

Determine what you'll owe to the IRS, your state and your county, city or town. Budget for that and set aside a portion of each unemployment check so you'll have it available when you need it.

What Are Inflation Adjustments?

Learn how the federal government
helps take the sting out of inflation.

Accounting for Inflation

Inflation reached a 40-year high in the United States in 2022, with increases in the cost of everything from groceries to gasoline. In October, the Bureau of Labor Statistics announced that the Consumer Price Index, an average price of a basket of goods and services, was up 7.7% over the year before. That means that on average, the cost of what consumers bought for $100 in September 2021 would inflate to $107.70 in October 2022. By comparison, economists expect to see an annual increase of about 3% in the average price of goods and services under ordinary circumstances.

Inflation is a concern domestically and in economies around the world. Global inflation is expected to rise 8.8% in 2022, a significant increase over the 4.7% global inflation rate in 2021, according to the International Monetary Fund.

To accommodate this historic rise in the cost of living, the IRS announced an inflation adjustment of 7% for 2022, more than twice 2021's 3% adjustment.

With the prices of goods and services shooting up, this year's inflation adjustment might help federal taxpayers save some money when they file their tax returns.

The Purpose of an Inflation Adjustment

Inflation adjustments are intended to alleviate the strain that comes along with higher cost of living driven by inflation.

The primary purpose of an inflation adjustment is to prevent "bracket creep." Federal taxes have seven income tax brackets ranging from 10% to 37%. Without inflation adjustment, a raise you receive to keep pace with inflation could bump you into a higher tax bracket. So you might pay more taxes without feeling the benefits of a higher income.

How Inflation Adjustments Work

Inflation adjustments limit the amount of revenue the government can collect as a result of inflated prices. The boundaries of income tax brackets are adjusted each year to accommodate inflation. In fact, inflation adjustments impact much of what is covered under the federal tax code, including tax brackets and standard deductions, as well as the Earned Income Tax Credit and estate and gift tax exclusions. Some provisions of the tax code, however, are excluded from inflation adjustments, including taxable Social Security benefits and Lifetime Learning Credit phaseouts.

The Impact of the Inflation Adjustment

News of a high inflation adjustment is welcome for taxpayers whose inflation-adjusted incomes have risen by 7% or less, which may be most people. Data shows that average earnings in the U.S. are lower than a year ago. In September 2022, real average earnings were down 3% from 2021, according to the Bureau of Labor Statistics. This may make current inflation rates challenging for the many who struggle to meet expenses. But the inflation adjustment should offer some relief come tax time.

The inflation adjustment for 2022 might help you save on your federal taxes.

Can't Pay Your Taxes?

Consider these steps to pay off what you owe.

You're on a tight budget. Gas and food prices are through the roof. Your retirement accounts are tanking. And to top it all off, you don't have enough money to pay your tax bill.

The stress can be, well, taxing. But don't despair, you're not alone, and there are steps you can take. Consider the following possibilities:

File Your Taxes With a Partial Payment

Whatever you do, don't delay filing your tax returns–even if you can't pay the entire bill. If you don't file your returns, your penalties will be much higher than if you file and don't pay in full.

Sending in some kind of payment (even if it's a fraction of what you owe) and following that up with additional payments every month will reduce penalties, give you time to consider your next move, and put you in a more favorable light with the IRS.

Apply for an Installment Plan

The IRS has installment plans that allow you to pay off what you owe over time.

The IRS' short-term payment plan gives you up to 120 days to pay what's due if you owe less than $100,000 in taxes, penalties and interest. The long-term payment plan is longer than 120 days, paid in monthly payments, if you owe less than $50,000.

Applying for a payment plan can be done online, and once you've applied, you'll receive immediate notification if your plan has been approved–all without having to call or write to the IRS.

PRO TIP

Some people can qualify for free tax advice from the IRS's Volunteer Income Tax Assistance Program.

Request a Compromise

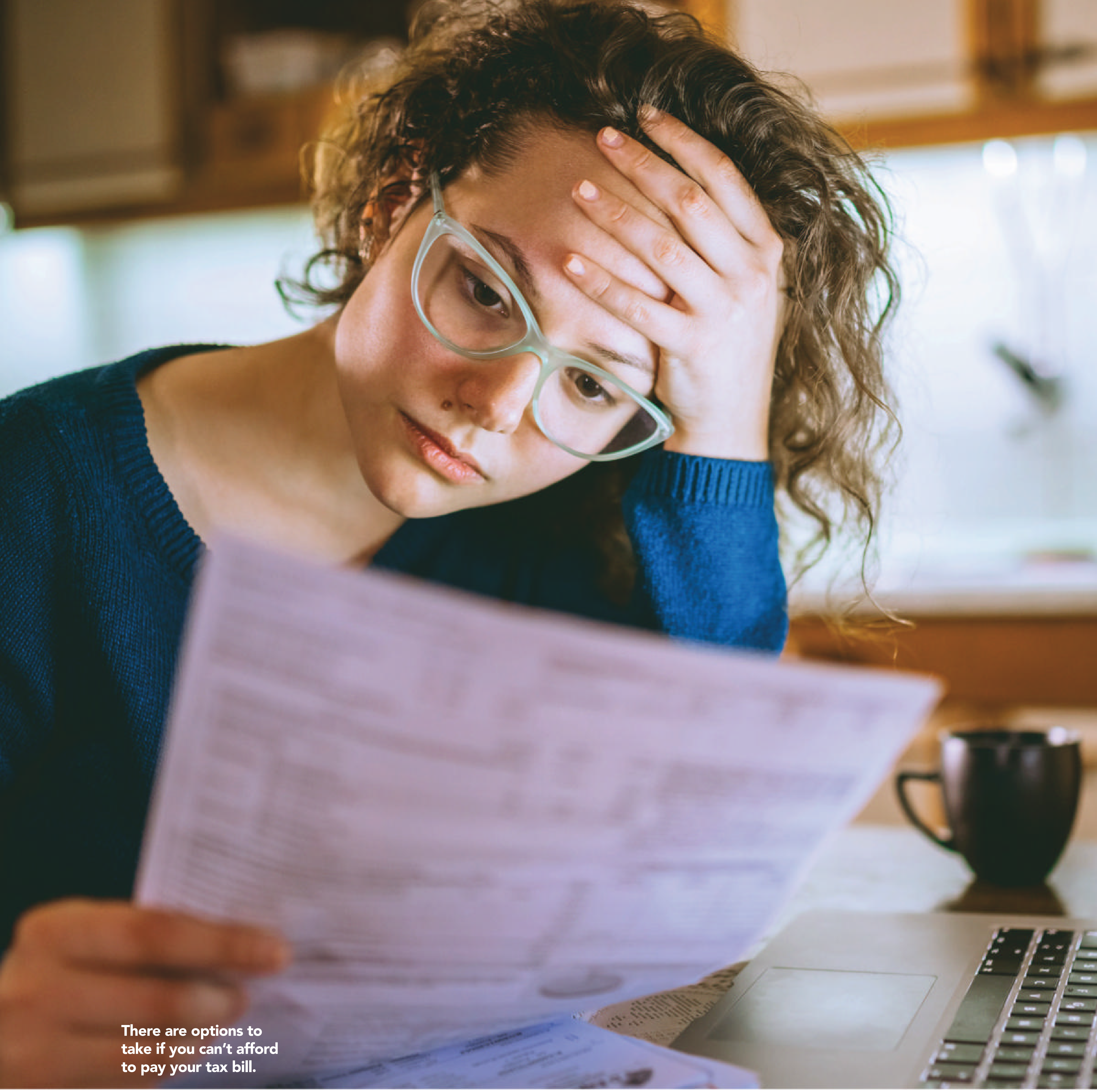
If you can't pay your full tax bill, or if doing so would create a financial hardship, the IRS has what is called an Offer in Compromise that allows you to settle your debt for what you feel you can pay.

If the IRS accepts your offer, you'll have two payment options to choose from: lump sum cash or periodic payment. Under the lump sum plan, you're expected to pay your tax debt in five or fewer payments within five months. Under the periodic payment plan, you will pay monthly until your tax liability is paid in full in six to 24 months.

Delay the Collection Process

If you're in dire straits and can't pay any of your tax bill, the IRS might declare your debt as "currently not collectible" and delay collecting your debt until your financial situation improves.

In seeking a delay, you'll have to fill out a Collection Information Statement and provide proof



There are options to take if you can't afford to pay your tax bill.

of your financial status, which could include information about your assets and monthly income and expenses.

If the IRS agrees to a delay based on your application, your tax debt doesn't just go away; it simply means the IRS agrees that you can't afford to pay at this time. If you do delay paying, you'll actually end up paying more down the road because interest and penalties will be charged until you pay up in full.

Get Help From a Tax Pro

If you aren't wealthy, don't owe an exorbitant amount and simply want a payment plan, then chances are good you probably don't need help from a tax professional.

But if your situation is complex, you're feeling overwhelmed and you owe a substantial sum, then a tax pro could be worth the time and cost. Experts, however, caution that you should carefully vet who you use.

SECTION

03

Getting Started

Tips for preparing your return and minimizing your tax bill

Should You File Your Own Taxes or Hire a Professional?

Filing your taxes—from gathering your paperwork to adding up the numbers—can be an overwhelming task. Fortunately, there are ways to make the process a little bit easier. Before you begin, consider whether you'd benefit from hiring a tax preparer or filing your return yourself using tax software. Here's a list of things you'll need to know before you make your decision.

Hiring a Pro

First, the bad news: Hiring a tax preparer doesn't mean you're totally off the hook for organizing your taxes; to prepare your return, the person you hire will need information and documents that only you can provide. Even so, using a pro will reduce the amount of time you spend doing your taxes and help ensure that your return is accurate.

Tax Preparers vs. CPAs

Tax preparers are trained specifically to help you prepare income tax returns. Meanwhile, a certified public accountant (CPA)—who must pass a certification exam and have a background in accounting and finance—typically has expertise in a wide range of accounting skills, from performing audits to preparing financial statements for businesses and individuals.

When You Need a Pro

Hiring a pro can be particularly helpful if you have a complicated financial situation—you own multiple properties, have a lot of investment activity, run a business or work as a freelancer—or have a high income and are looking for ways to reduce your tax bill. CPAs typically know the tax system front to back and are required to take continuing professional education courses to stay up-to-date on the latest tax codes and regulations. Furthermore, they use sophisticated software that reduces the chance for human error to affect the accuracy of your return. If you've hired an accountant and the IRS determines there is a mistake on your tax return, depending on the situation, some of the liability may fall on your accountant. Developing a long-term relationship with a CPA who understands your family's finances can also be an asset in terms of planning for the future. Accountants can assist with financial and estate planning, as well as provide expert advice that can lower your tax liability.

What It Costs

For some, the cost of hiring an accountant is a small price to pay for the amount of money you can save in the long run. The average cost of hiring a professional

PRO TIP

Find a tax preparer who holds professional credentials recognized by the IRS at irs.treasury.gov/rpo.

accountant to prepare and submit an itemized Form 1040 and a state tax return is $220 without itemized deductions, according to the National Society of Accountants. Using a tax preparer can be considerably less expensive than hiring a CPA. (Remember, these costs can vary depending on where you live, as well as the complexity of your family's tax situation.)

How to Find One

If you decide to go with a pro, ask for recommendations from friends and colleagues. All legitimate preparers are required to have a Preparer Tax Identification Number (PTIN) from the IRS, which you can verify on the IRS website. If a preparer doesn't ask you for last year's tax return (in order to get an idea of your situation), consider going elsewhere.

Working Together

When you've chosen a tax preparer, ask how he or she wants to receive your information. Many CPAs send clients a tax organizer that outlines the information they need to prepare your return. You'll also need to provide documentation of your income, including W-2 and 1099 forms, as well as information on the sale of investments, business or rental incomes and the like. In addition, your tax preparer will need expense-related documents, including those that detail interest you've paid on student or home equity loans, business expenses and receipts for charitable donations. Finally, make sure you review your tax preparer's work for accuracy before you sign the return.

Doing It Yourself

If your financial situation is fairly straightforward–you've got minimal deductions, sources of income and investments–hiring a tax pro may be overkill. You can save money by filing your own taxes with the help of a tax software system. See the REASONS TO E-FILE table, below.

How It Works

Once you've gathered all the necessary paperwork, including income documents and expense-related receipts and paperwork, it shouldn't take more than an hour to input the information and find out how much you owe–or the size of your refund. Most tax software programs complete the calculations automatically, saving you from doing the math yourself. They'll also flag potential errors so you can double-check that you've put the right information in the right place. After you submit your return, you'll get an immediate notification of receipt and can check your status at any time. E-filing also means that if you're entitled to a refund, you'll receive it sooner than if you'd sent in a paper return. Learn more about electronic filing options at irs.gov/filing/e-file-options.

REASONS TO E-FILE

You may be the kind of person who chooses paper instead of digital, or who feels it's safer to hand-deliver your tax returns to the post office, but e-filing has a lot of perks, too:

Easier
Tax software takes into account recent tax law changes and does the math for you. It is designed to catch errors, so if you're missing any key information on your return, the program will alert you before you file.

Convenient
Most tax-filing software comes with a mobile app, so you can file your return from your smartphone or tablet. After you've filed your return, the IRS will notify you when it receives and approves your return and when it has sent your refund to you.

Faster Refund
If you e-file with direct deposit, you won't even have to wait to get a check in the mail: Your refund will go straight to your bank account.

Affordable
Tax-filing software can provide you with the expert guidance of a tax preparer without the expense of one.

There is a wide range of software available to suit your particular needs—and your budget. And if your adjusted gross income is $73,000 or less, you can use the IRS Free File system.

Tax-prep software can help you save time and avoid errors.

What It Costs

Tax software runs from approximately $30 to $200, while some websites even offer their software for free. Many of these programs offer chat help, phone services and life-events guidance, should you get bogged down by the details. Nowadays, most come equipped with mobile apps, so you can even file your taxes conveniently from your smartphone. (Want to know how to choose which software to use? See the HOW TO DECIDE WHICH TAX-FILING SOFTWARE TO USE table, right.)

What to Be Aware Of

While e-filing can provide a convenient and affordable alternative to hiring a tax pro, there are a few risks associated with doing so to keep in mind. A 2016 audit conducted by the Online Trust Alliance (OTA) found that nearly half of tax software packages offered under the IRS's free-file program initially failed cybersecurity protocols. To protect yourself, the OTA recommends filing your tax return as early as possible, to decrease the risk that someone files a bogus tax return in your name, and staying up-to-date on your software, which includes installing any necessary updates for your device's operating system.

HOW TO DECIDE WHICH TAX-FILING SOFTWARE TO USE

The more complex your financial situation is, the more comprehensive your software should be. If you want to file your taxes using software, consider these options.

Free Filing Through the IRS

If your adjusted gross income is $73,000 or less, you may be eligible for no-cost tax filing under the IRS's Free File system. This gives you access to a handful of software options from major tax-prep companies like TurboTax and H&R Block, and it's free of charge. Visit the IRS website (irs.gov) to see if you qualify. Once your eligibility is confirmed, the IRS will provide a list of available software.

Free Basic Services for Simple Returns

If you don't have itemized deductions or dependents to list and rely on a single source of income, you likely don't need to look further than the most basic services available: the free versions of tax-prep software offered by companies like TaxAct and TaxSlayer. Typically, you can only use these if you're filing Form 1040EZ or Form 1040A, which means you'll need to look elsewhere if you have itemized deductions. Even if the software is free, you may still need to pay fees to file a state return; check the fine print to be sure.

Paid Deluxe and Premium Software for Complex Finances

If your finances are more complex—you itemize, own multiple properties, have a lot of investment activity or work as a freelancer—you'll want a software package that can help you navigate that complexity. Tax-prep companies often offer different versions of their software—basic, deluxe and premium—that vary both in features and price (about $30 to $200). Depending on how complex your return is, you can opt for a version specifically targeted to investors or the self-employed. Many of the higher-end programs also offer live support, in case you have any problems while filling out your return.

Keeping Your Tax Documents Organized

We have all been there. It's time to file your tax return, and you find yourself scrambling to organize the past 12 months of your life in just a few weeks. If you're itemizing your deductions, you'll be tracking down old receipts, digging up the paperwork to deduct the cost of your daughter's day care and remembering where you donated your old clothes and that sofa you found in the shed. The solution: Start organizing your documents ahead of time to make filing your taxes a smooth and easy process.

Here's a little secret: Tax season doesn't have to be an annual source of stress. The key to tax season success (and sanity) lies in implementing a system that makes tracking your expenses more like a daily habit than a chore. Creating a process and sticking with it throughout the year will mean less time digging for paperwork when April rolls around and less worry that you're missing any important deductions, credits or other tax breaks. Save money, save time and save yourself a headache with these simple organization tips.

PRO TIP

When it comes to tax prep, more is often better. If you're in doubt about whether you'll need a receipt or document, keep it!

What Documents Can I Expect to Receive?

Tax documents vary depending on your occupation. At right is a list of standard documents you can expect to receive during tax season, as well as miscellaneous documents you will want to save throughout the year–these are especially important if you are an independent consultant, contractor or freelancer.

Standard tax documents you'll receive from employers and financial institutions:

- W-2 (Wages from employment)
- 1098 (Student loans, mortgage interest)
- 1099-MISC (Non-employee compensation)
- 1099-INT (Interest income from savings accounts)
- 1099-DIV (Investment income, such as dividends and capital gains)

Other documents you'll need to track yourself:

- Charitable donation receipts
- Child care and education costs
- Medical receipts
- Contributions to tax-deferred retirement accounts (401(k), IRA)
- Volunteer time cards
- Business expense receipts: meals, utilities, equipment, supplies, mileage, advertising
- Receipts for tax-deductible home improvements, such as energy-efficiency upgrades
- Real estate tax and personal property tax documents

Avoid headaches at tax time by keeping your information organized all year.

How Can I Organize These Documents?

If you plan to itemize deductions on your tax return, the onus is on you to keep good records to prove your expenses. One of the most important things you can do is to save and organize all related receipts throughout the year. You can get creative with how you choose to store and classify your documents, but the underlying goal is to keep the process simple enough that you'll follow it on a regular basis. The result: a more organized tax-filing process–with fewer surprises.

To get started, create designated storage spaces in your car, home and office, so you can file receipts as you spend money. Something as simple as a manila envelope, pocket folder or shoebox for the car and an accordion folder or filing cabinet at home is effective. Place documents in their respective places upon leaving the store, then transfer them to the larger storage system at home on either a weekly or monthly basis, whatever suits your schedule. Make a habit of labeling each receipt so you can remember the nature of the expense. Categories to consider:

PRO TIP

Consider using an app like Shoeboxed, Expensify or Genius Scan to capture paper receipts when you're on the move.

- Gas and tolls
- Donations
- Home expenses
- Child care costs
- Legal and professional fees
- Medical expenses
- Office supplies
- Travel
- Utilities

Also make room for the standard tax documents that begin to show up in your mail in January. Either add a separate folder for them or store them in a section of the current system that you label "Tax Documents."

If you're always on the go and want to store receipts digitally, consider software or smartphone apps that allow you to snap a picture and upload or email a receipt to yourself. Don't toss those paper receipts, though. Having the document in both physical and digital storage increases safety and accuracy at tax time.

HOW LONG TO KEEP YOUR FILES

A list of the documents to keep—and when it's safe to get rid of them.

There are very good reasons to keep certain tax files: You may need to amend your return or maybe even—gulp—face an audit by the IRS. But how long should you keep those receipts, W-2s and other tax documents? Here are some general guidelines for how long to save your files.

The Three-Year Rule

In typical filing situations, the IRS has three years to audit your return, which means you should keep your records stored for three years from the date you filed or the due date of the return—whichever is later. For example, if your tax return is due April 15, but you file early, the statute runs exactly three years after the due date. If you file late and do not have an extension, the statute of limitation applies to the three years following your filing date. You also have three years from the date you filed, or two years from the date you paid the tax, to file any additional claims or refunds. Note that filing an amended claim doesn't restart the three-year statute of limitations.

What Documents Do I Need to Keep?

Generally, you should keep all records that support your taxable income, a deduction or a credit shown on your tax return for three years.

Income

- W-2
- 1099
- Bank and brokerage statements
- Interest and dividend income

Expenses and Deductions

- Receipts for business expenses such as mileage, supplies, utilities, advertising, meals, etc.
- Child care and education costs
- Charitable donation receipts
- Medical receipts
- Contributions to tax-deferred retirement accounts (401(k), IRA)

Home

- Closing statements
- Purchase and sales invoices
- Home-buyer and homeowner tax credits

Exceptions

- If you underreport your income by more than 25%, the period of limitations is doubled: The IRS has six years to decide whether to audit your return.
- If you file a claim for a loss of worthless securities or a bad debt deduction (a debt that becomes uncollectible), you must keep records for seven years.
- If you file a fraudulent return or don't file one at all (not recommended), the statute of limitations never expires and you will need to keep records indefinitely should the IRS decide to investigate.

Storage Tips

Use what works best for you, as long as it allows you to produce the material if the IRS audits. Once the statute of limitations has passed, confirm that you do not need to keep your records for other purposes; certain creditors and even some insurance companies may require you to keep records longer than the IRS does. When it's time to let go of most documents and receipts, keep the tax return to consult when filing future returns.

Getting Organized: Print vs. Digital Tax Files

Organizing your tax files doesn't have to be a monumental task. In fact, you can make the process easier by taking the time to create a functional system for storing your documents throughout the year. Whether you're more comfortable using an accordion folder or digital storage, the point is to make the practice systematic and efficient, so it becomes a habit. As a result, you'll be able to find everything you need when it comes time to file.

To help you get started, here's what an organized print and digital file system might look like.

Print

Although many companies have gone paperless, saving physical receipts is still the easiest way to accurately track your expenses. Keep a folder in your car to collect loose receipts and other paperwork. At home, create a folder or binder with labeled sections to keep all of your paper documents organized by category.

Digital

These days, it's easy to pull out a smartphone and capture a high-quality scan of a doctor's bill or gas receipt. Consider organizing your tax documents digitally: Scan and upload receipts to designated folders within the larger "Taxes" folder to stay organized. Consider creating a spreadsheet to track expenses in each category, but be sure to save images of physical receipts and invoices.

DOCUMENTS TO SAVE

- **Donations** Receipts from charitable organizations
- **Child Care Expenses** Education, camp, day care
- **Medical** Doctor's bills, prescription receipts
- **Home** Property tax bills, home loan interest statements
- **Travel** Tax-deductible airfare, meals and hotel expenses
- **Office Supplies** Receipts for your eligible home office deductions
- **Auto** Gas and mileage trackers for deductible travel
- **Professional Fees** Advertising, attorney fees, business cards, graphic design
- **Utilities** Paid bills for deductible home utilities such as electricity and internet
- **Tax Documents** Forms including your W-2, 1099 and 1098
- **Miscellaneous** A catch-all for other assorted tax documents

Many taxpayers store important documents in the cloud.

Types of Income and How They're Taxed

Taxpayers frequently receive income from several different sources. Not all types of income are taxed at the same rate or according to the same rules. So knowing what gets taxed–and how–is important as you fill out your return each year. Here's a look at the rules for each category of taxable income.

Wages and Salaries

This is income you earn from your job, along with certain fringe benefits, like company-paid gym memberships, company vehicles and holiday cash gifts. Employers are required by law to report what they pay you on a W-2 form, which they typically send to you at the end of the year. Most employees choose to have their employers automatically withhold taxes from their paychecks, in which case the company does the math. You do have the option of claiming that you are exempt from withholding on your W-4 form. (Just remember that you'll still have to pay taxes on your income at the end of the year.)

PRO TIP

You may have both wage-and-salary and self-employment income–for instance, if you have a day job and a side business.

The taxes you pay on your wages and salaries take many different forms, from federal and state income taxes to Social Security and Medicaid taxes. Your employer is required to pay half of your Social Security and Medicaid taxes, so what shows up on your W-2 is only the half you're required to pay. The rate of your federal income tax depends on which tax bracket you fall into: The higher your tax bracket, the higher your tax bill will be.

Self-Employment Income

If you are self-employed, you will be taxed for the net profits from your business at the same rate as wages and salaries. Independent contractors typically receive Form 1099-S reporting income from their clients–as long as it's over $600–but otherwise, you are required to keep track of your income (and expenses) yourself.

One important thing to remember: You are allowed to deduct certain business expenses to offset your gross profits, so your net profits may be considerably less than the gross amount of money you took in. Social Security and Medicare taxes work differently for self-employment income: You have to pay a self-employment tax that covers the full rate for these social services, meaning you're shouldering the entire bill rather than covering only half.

Investment Income

Interest is taxed at the same rate as salaries, wages and self-employment, but it's not subject to Social Security and Medicare taxes. In most cases, taxable interest income will be reported to you on a Form 1099-INT. Some types of interest income are not subject to federal taxes, though. Bonds issued by state governments or municipalities are the most common sources of this type of nontaxable interest, although both may be subject to state and/or local taxes.

Dividends are distributions of a corporation's profits to part-owners called shareholders. Like interest, dividends aren't subject to Social Security or Medicare taxes. Some dividends are taxed at the same rate as wages and salaries, but some are eligible to be taxed at lower long-term capital gains rates. These dividends, called "qualified dividends," are subject to a maximum tax rate of 20%, and typically apply to investments held for longer than 60 days.

If you're self-employed, you may be able to deduct many expenses.

Capital gains are profits from the sale of capital assets such as stock, a business or a parcel of land. Short-term capital gains–those held for less than a year–are taxed at the same rate as wages and salaries. Long-term capital gains–those held for more than a year–are taxed at a maximum rate of 20%, though the exact rate depends on your tax bracket.

Retirement Income

401(k)s and 403(b)s are both popular employer-sponsored retirement plans that automatically divert a portion of your pretax paycheck to the plan. The money that goes into these plans is not subject to federal income tax, though it is subject to Medicare and Social Security taxes. When you are 59½ you are eligible to withdraw from your retirement account, and those withdrawals will be taxed as income. If you take distributions before that age, you'll face an additional 10% tax, unless the distribution qualifies for an exception.

Pension and annuity income is fully taxable as long as you didn't contribute anything to the accounts from your salary. As with 401(k)s and 403(b)s, you'll be hit with an extra 10% tax if you withdraw from these before age 59½.

Traditional IRA income is likewise fully taxable upon withdrawal, and it faces the same age restrictions as 401(k) plans. As with 401(k)s, the money that goes into these plans is tax-deferred, lowering your income tax burden while you save. Roth IRA and 401(k) income is tax-free. That's because, in contrast to traditional IRAs and 401(k)s, you pay income taxes on the money you contribute before it goes into your Roth IRA or 401(k).

Rental Income

Money you make from renting out property is subject to the same rate of taxation as wages and salaries, minus any expenses associated with the rental. For this reason, it's important for owners of rental property to keep detailed accounts of their income and expenses, which can include everything from cleaning costs and garbage collection to transportation to and from the property, and even the cost of advertising for new tenants.

PRO TIP

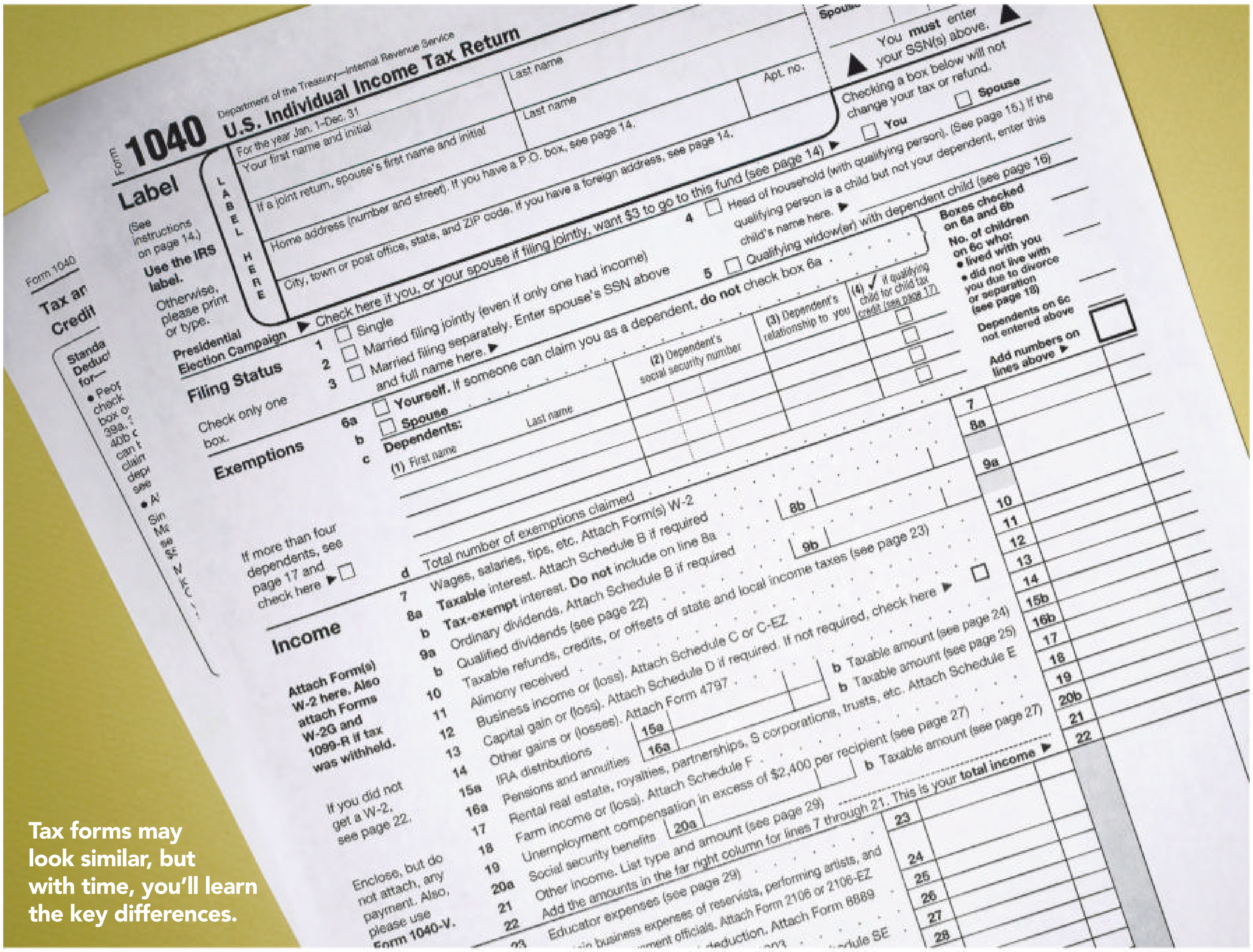
Did you win a trip, a car or a TV from a game show or radio station? If so, you'll owe taxes on the cash value of your prize.

Other Income

Less-common kinds of income are reported on Form 1040 as "Other Income." These can include gambling winnings or other prizes, canceled debts, hobby income, jury duty pay and barter income. They are taxed at the same rate as wages and salaries.

Income Tax Forms and How to Read Them

What information really matters on important tax forms? Knowing this helps you report income accurately.



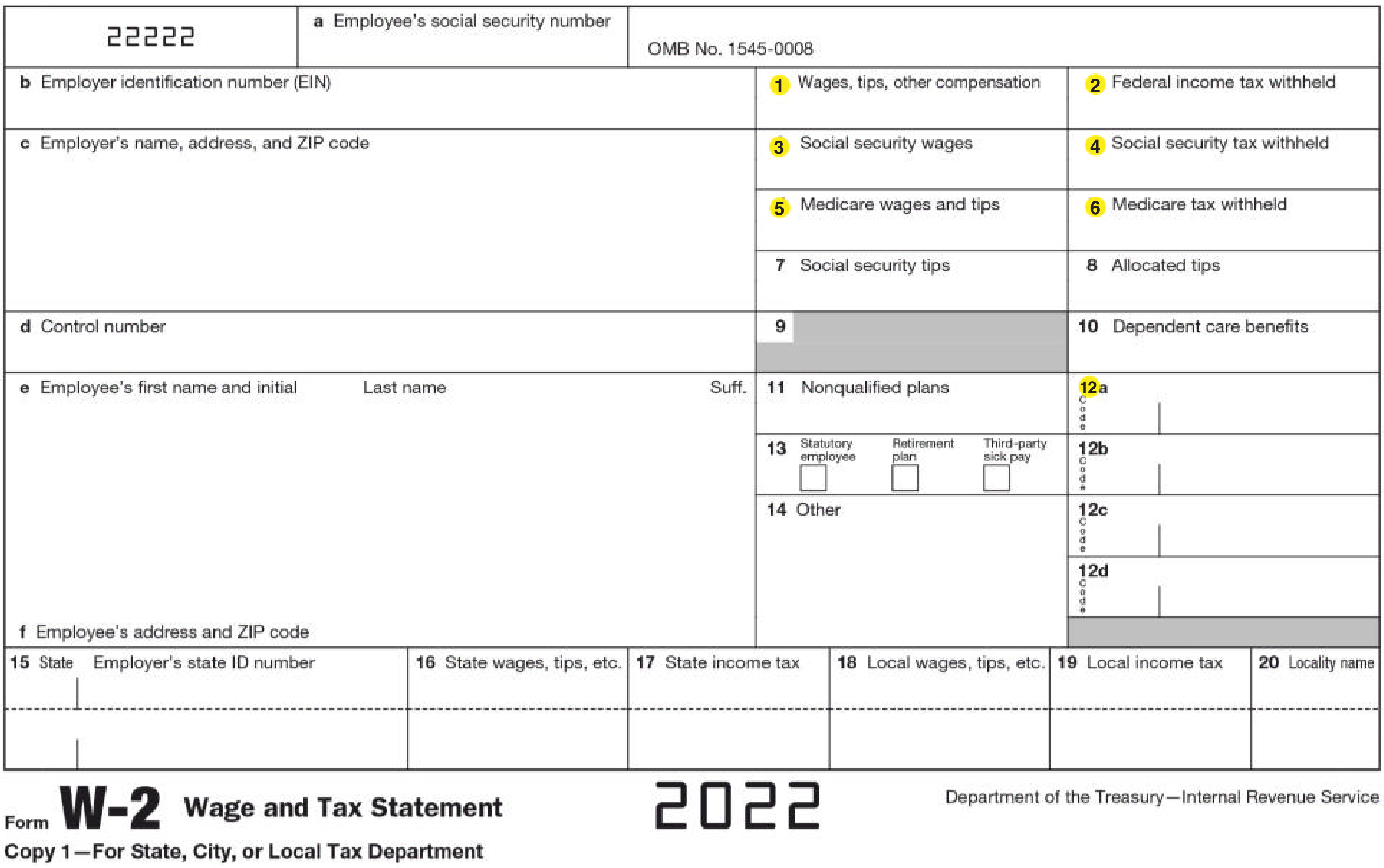
Tax forms may look similar, but with time, you'll learn the key differences.

Organizations and individuals that pay you money—whether a company, a financial institution or a person who hires you as contractor—typically must report how much they paid you to the IRS.

They must also send you a copy of that information, which is why you receive a form in the mail from each source of income with information about your wages and other earnings.

It's important to know how to read these forms, so you can accurately report your income on your tax return. Here's a look at common income forms, and some key items to pay attention to.

FORM W-2



22222

a Employee's social security number

OMB No. 1545-0008

b Employer identification number (EIN)

1 Wages, tips, other compensation

2 Federal income tax withheld

c Employer's name, address, and ZIP code

3 Social security wages

4 Social security tax withheld

5 Medicare wages and tips

6 Medicare tax withheld

7 Social security tips

8 Allocated tips

d Control number

9

10 Dependent care benefits

e Employee's first name and initial Last name Suff.

11 Nonqualified plans

12a Code

13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐

12b Code

14 Other

12c Code

12d Code

f Employee's address and ZIP code

15 State Employer's state ID number

16 State wages, tips, etc.

17 State income tax

18 Local wages, tips, etc.

19 Local income tax

20 Locality name

Form **W-2** **Wage and Tax Statement** 2022

Department of the Treasury—Internal Revenue Service

Copy 1—For State, City, or Local Tax Department

FORM W-2

Also known as the Wage and Tax Statement, this form documents the income you have earned as an employee. It also includes a tally of the total tax you have paid so far through withholding. Employers are required by law to get these forms to you by Jan. 31. You must include a copy of the form (from each employer, if you have more than one job) in your annual return.

Box 1

This is the total amount of your year's pay that is subject to income tax. This total does not include any contributions you made to a 401(k) or other workplace retirement plan. It also doesn't include payroll deductions for pretax benefits, such as health and dental insurance premiums.

Boxes 2, 4, 6

As you earn money through the year, your company withholds a portion of your paycheck on an ongoing basis in order to pay your taxes to the government. These three boxes display the total amount of federal, Social Security and Medicare taxes you have paid during the year.

Boxes 3 and 5

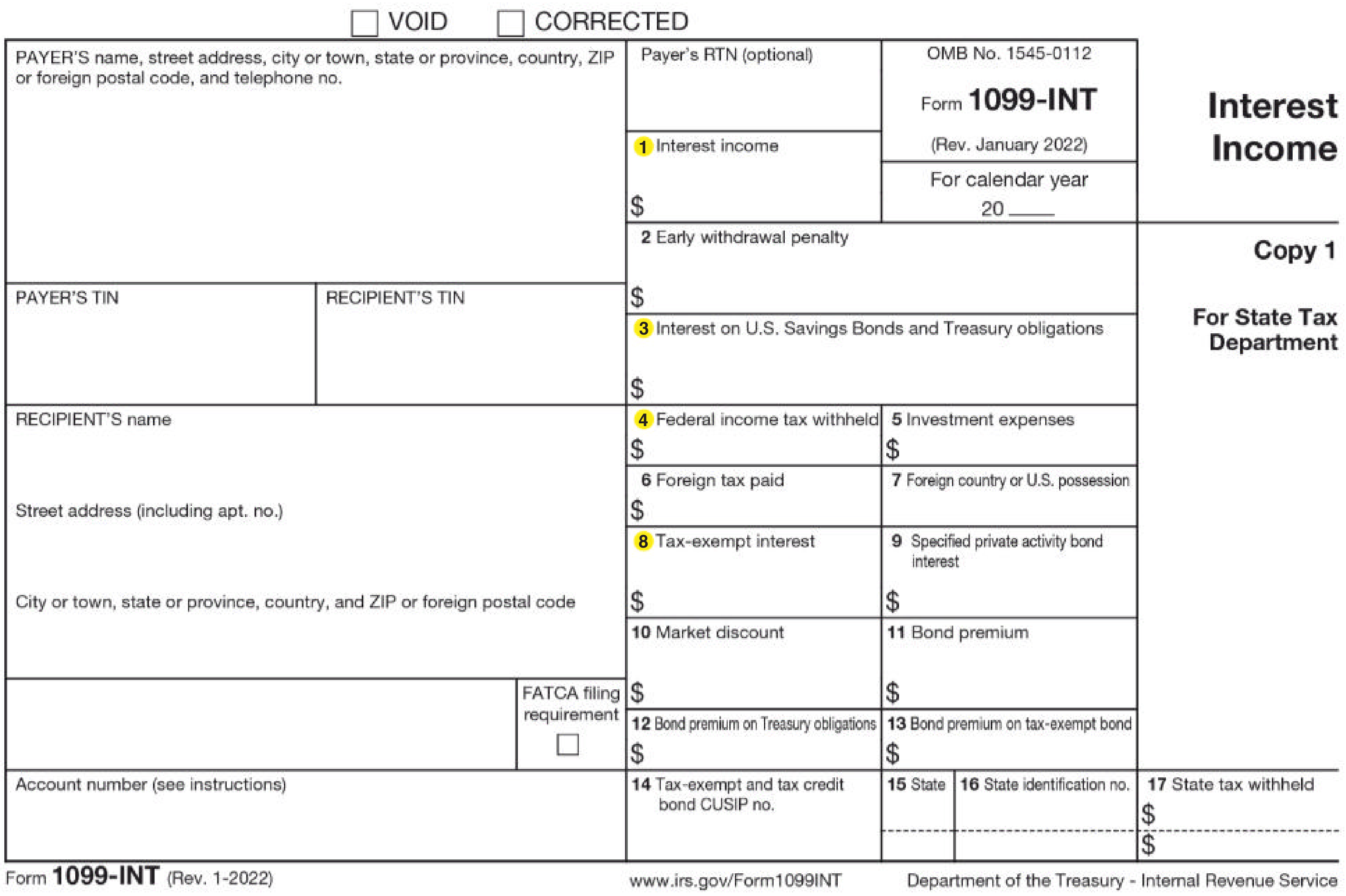
Although the money you save in a 401(k) or other workplace retirement plan–along with some other pretax benefits–is shielded from income tax, it is subject to Social Security and Medicare taxes. As a result, your total wages reported here will likely be higher than in box 1.

Box 12

The line items in box 12 may display employment related information that can affect your tax filing. Each is specified by a letter code located on the left side of the box. For example, if you made retirement plan contributions you'll see the amount listed in box 12d. Or there might be an amount listed for reimbursed business travel (code L) or a company contribution to your health savings account (code W).

You can find a complete list of the codes in the IRS General Instructions for Forms W-2 and W-3 at https://www.irs.gov/pub/irs-pdf/iw2w3.pdf.

FORM 1099-INT



☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.	Payer's RTN (optional) 1 Interest income $ 2 Early withdrawal penalty $	OMB No. 1545-0112 Form **1099-INT** (Rev. January 2022) For calendar year 20 ____	**Interest Income** **Copy 1** **For State Tax Department**
PAYER'S TIN / RECIPIENT'S TIN	3 Interest on U.S. Savings Bonds and Treasury obligations $		
RECIPIENT'S name	4 Federal income tax withheld $	5 Investment expenses $	
Street address (including apt. no.)	6 Foreign tax paid $	7 Foreign country or U.S. possession	
City or town, state or province, country, and ZIP or foreign postal code	8 Tax-exempt interest $	9 Specified private activity bond interest $	
	10 Market discount $	11 Bond premium $	
FATCA filing requirement ☐	12 Bond premium on Treasury obligations $	13 Bond premium on tax-exempt bond $	
Account number (see instructions)	14 Tax-exempt and tax credit bond CUSIP no.	15 State / 16 State identification no.	17 State tax withheld $ $

Form **1099-INT** (Rev. 1-2022) www.irs.gov/Form1099INT Department of the Treasury - Internal Revenue Service

FORM 1099-INT

Whenever you earn $10 or more in interest on a savings account, certificate of deposit (CD) or other interest-bearing account, the bank or government agency holding your money will send you a Form 1099-INT. You should expect to receive it by Jan. 31. You don't need to attach the 1099-INT to your return when you file it, as you do the W-2, but you do need to enter the relevant information on your return.

- **Box 1**

This is the taxable interest you earned during the calendar year.

- **Box 3**

This is the interest you've earned from U.S. Savings Bonds, as well as Treasury bills, bonds and notes. A portion may be taxable at the federal level, but all of it is exempt from state and local income tax.

- **Box 4**

If the bank or agency has already withheld some of your federal tax liabilities from your interest, that total will appear here. Note that if you haven't sent the entity your correct taxpayer ID information, it will automatically withhold a portion of your earnings.

- **Box 8**

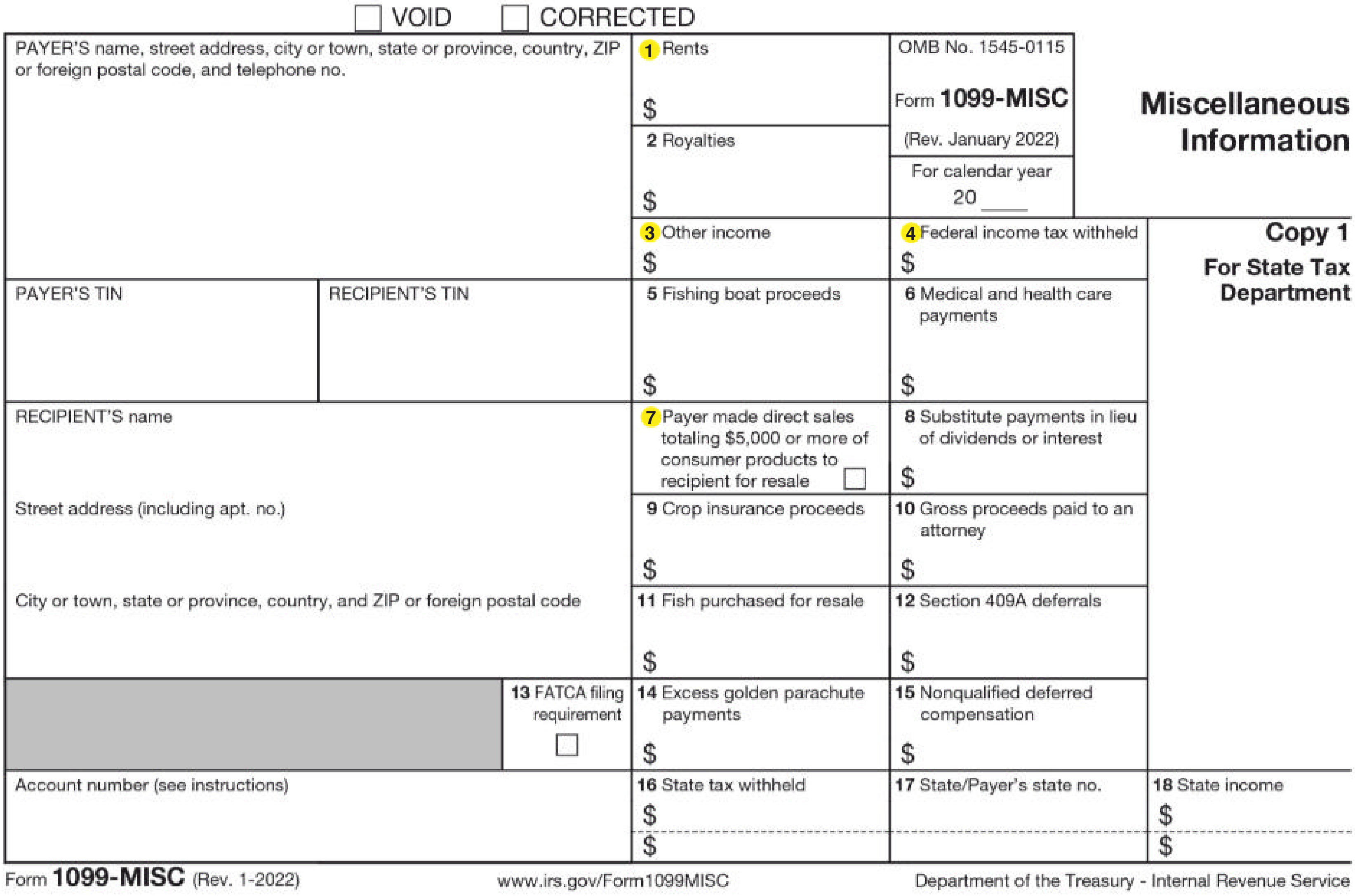
If you earned interest through municipal bonds issued by a state, local or city government, those earnings are exempt from federal taxes. You will find that tax-free balance here.

Find the IRS General Instructions for Form 1099-INT at https://www.irs.gov/pub/irs-pdf/i1099int.pdf.

PRO TIP

If you have multiple interest-bearing accounts, you'll receive a 1099-INT form from the bank or agency that holds each one.

FORM 1099-MISC



☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.

1 Rents
$

2 Royalties
$

3 Other income
$

OMB No. 1545-0115

Form **1099-MISC**

(Rev. January 2022)

For calendar year
20 ____

Miscellaneous Information

4 Federal income tax withheld
$

Copy 1

For State Tax Department

PAYER'S TIN

RECIPIENT'S TIN

5 Fishing boat proceeds
$

6 Medical and health care payments
$

RECIPIENT'S name

Street address (including apt. no.)

City or town, state or province, country, and ZIP or foreign postal code

7 Payer made direct sales totaling $5,000 or more of consumer products to recipient for resale ☐

8 Substitute payments in lieu of dividends or interest
$

9 Crop insurance proceeds
$

10 Gross proceeds paid to an attorney
$

11 Fish purchased for resale
$

12 Section 409A deferrals
$

13 FATCA filing requirement ☐

14 Excess golden parachute payments
$

15 Nonqualified deferred compensation
$

Account number (see instructions)

16 State tax withheld
$
$

17 State/Payer's state no.

18 State income
$
$

Form **1099-MISC** (Rev. 1-2022) www.irs.gov/Form1099MISC Department of the Treasury - Internal Revenue Service

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PRO TIP

Other forms include 1099-C for cancellation of debt and 1099-NEC covering non-employee compensation. (See irs.gov.)

FORM 1099-MISC

This form serves as a catchall for any money you make that isn't part of wages from an employer, interest earnings or investment income. It's most commonly seen by self-employed workers. These forms must be issued by any individual or business that paid you more than $600 during a given tax year. They must file the forms with the IRS and send you a copy by Jan. 31. You might also receive a 1099-MISC if you earned income from leasing property to a business, or if you have won a cash prize.

- **Box 1**

If a person or business paid you $600 or more for office space, prizes and awards, medical payments, or payments to an attorney, they're required to report that amount to you in this box.

- **Box 3**

Income that doesn't fit in any other category will appear here. Examples may include prize winnings and awards, or wages due to a deceased employee for whom you were named as a beneficiary.

- **Box 4**

Unlike on the W-2 form, the 1099-MISC form generally won't include taxes that have been taken out, since the income reported here generally isn't subject to withholding.

- **Box 7**

If you sold $5,000 or more of consumer products outside of a permanent retail establishment, you'll mark this box.

Choosing Your Filing Status

The filing status you elect to use is a critical part of filing your return. Though the decision may not seem like a big deal, your choice can have a big impact on the size of your tax bill. If you've experienced a major life change like marriage, divorce or widowhood, it's crucial to pay close attention to how these changes affect your filing status and your taxes.

The IRS has simplified the process by having taxpayers choose from among five statuses. Consider the following to understand how each status has a different impact on your tax situation:

Single

Taxpayers who are unmarried, legally separated, divorced or widowed as of Dec. 31 of the tax year are eligible to file as single. Divorced or separated parents who don't have primary custody of their children may also qualify as single. (Custody comes into play in the Head of Household status, below.)

Married Filing Jointly

If you are legally married as of the last day of the tax year, you qualify to file as married filing jointly. This status means both spouses are responsible for reporting any income earned and paying any taxes due. Choosing to file jointly offers the couple tax benefits beyond what's available if each spouse opted to file as an individual, such as a larger standard deduction and some additional tax credits. As a result, the majority of married couples choose this option.

Married Filing Separately

Some couples choose to file their taxes separately despite being married. Filing separately may make the most sense in a few key scenarios, such as when combining their incomes would bump them into a higher tax bracket. Another scenario: One spouse earns a lower income but has large deductions, such as medical bills, that they might not qualify to use when filing jointly. If you think filing separately might be advantageous, consider calculating your taxes both jointly and separately to make sure you're choosing the best status for your situation.

Head of Household

If you're unmarried at the end of the year and pay for more than half of all household expenses for yourself and a dependent who has spent at least six months of the year living with you, then you can file under this status. If you're paying more than half of a parent's expenses, you may also qualify to file as head of household. Filing as head of household

PRO TIP

Your filing status can change from year to year, in accordance with changes in your life, marital status and family size.

Eligible single parents may choose to file as head of household.

generally means you'll get a lower tax rate and a higher standard deduction than if you filed as single or married filing separately.

PRO TIP

Filing as a qualifying widow/er allows a surviving spouse to use the same tax rates as those married filing jointly.

Qualifying Widow/Widower With Dependent Child

If your spouse died during the current tax year, you still can file as married filing jointly for that year. And, for the next two years, you may file as a qualifying widow or widower with a dependent child, provided you meet the following criteria:

- You haven't remarried.
- You've cared full-time for a child or stepchild.
- You've paid for more than 50% of household costs during the year.

Filing as a qualifying widow or widower means the surviving spouse can use the same tax rates as couples who are married filing jointly, and also receive the highest standard deduction.

After the two-year period is over, you'll have to choose either single or head of household status, depending on your situation. If you remarry, of course, you'll need to choose a status that reflects that fact.

For more information on the ins and outs of the five different statuses, check out IRS Publication 501, Exemptions, Standard Deduction and Filing Information.

Top 7 Questions About Tax Deductions

Tax deductions can have a major effect on your tax bill. They are write-offs that help you offset your taxable earnings and reduce your tax bill. As you read the following commonly asked questions about tax deductions, think about how they might apply to you.

1 What Are My Options When It Comes to Deductions?

In most cases, taxpayers can choose between taking the standard deduction–a set dollar amount determined by the IRS that varies based on one's filing status–and itemizing their deductions. The latter option involves listing the specific deductions that you qualify for in a given tax year. Everyone can itemize (though doing so may or may not be advantageous), but not everyone qualifies for the standard deduction. Note that for 2022, the standard deduction has increased to $12,950 for individuals.

2 When Can't I Take the Standard Deduction?

Some people aren't eligible for the standard deduction and must itemize in order to benefit from deductions on their tax return. If you're married filing separately and your spouse itemizes deductions, you must also itemize. And if you're filing a tax return for a period of less than 12 months, or if you were a nonresident or dual-status alien during the year, you are also ineligible to use the standard deduction and must itemize in order to receive any deductions for which you're eligible.

(However, if you are a nonresident alien and are married to a U.S. citizen or resident alien and you and your spouse elect to be considered U.S. residents for the year, you're eligible to use the standard deduction.)

3 Why Should I Choose One Over the Other?

The standard deduction requires the least amount of paperwork; it's the one most taxpayers use. With the standard deduction, you don't need to keep records to back up deductible expenses. And if you don't have a lot of deductible expenses to itemize, the standard deduction will most likely qualify you for a larger deduction on your return. If you itemize your deductions, you'll need to use Form 1040 to file your taxes, and list each of your deductions on the IRS Schedule A form; taxpayers who itemize cannot use Form 1040A or 1040EZ.

4 How Much Is the Standard Deduction for 2022?

The amount of the standard deduction varies depending on your filing status, your age and your income. The amount also usually changes slightly each year to keep up with inflation, as it did between 2020 and 2021. (See the 2022 STANDARD DEDUCTIONS BY FILING STATUS table, below.) The standard deduction comes with additional increases for people who are 65 or older, and taxpayers who are blind.

5 When Might Itemizing Deductions Make More Sense?

The standard deduction is larger under the new tax code, but there are situations when itemizing will earn you a larger deduction, especially if you're deducting a number of big-ticket items at the same time. For instance, if you've been paying mortgage interest and/or property taxes (up to $10,000) on a first or second home during this tax year, or if you've made sizable charitable donations, then itemizing might be worthwhile. And if you've suffered large losses due to theft or casualty or had major medical or dental expenses that are not reimbursable, itemizing may result in a higher total deduction than taking the standard deduction.

2022 STANDARD DEDUCTIONS BY FILING STATUS

Filing Status	Standard Deduction
Single	$12,950
Married Filing Jointly	$25,900
Married Filing Separately	$12,950
Head of Household	$19,400

6 Which Expenses Can I Deduct if I Itemize?

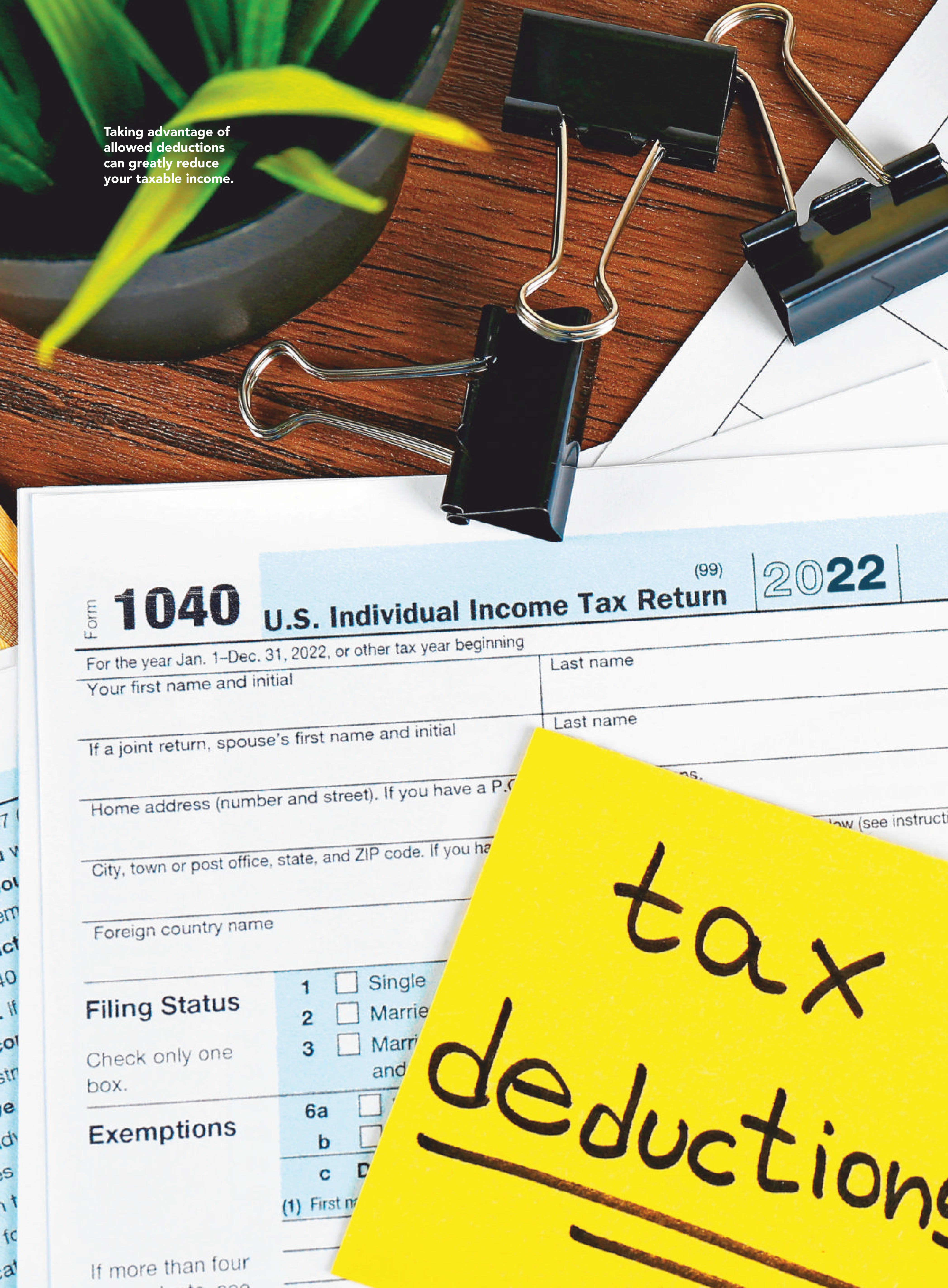
There are a number of expenses you can deduct if you itemize. Here are the most common ones:

- Interest paid on a mortgage (up to $750,000, or $1 million on loans taken out before Dec. 16, 2017) or home equity loans if they are used to purchase, build or make a significant improvement on first and second homes
- Home mortgage points
- Property taxes and state and local income taxes or sales tax up to $10,000
- Unreimbursed, qualified out-of-pocket medical or dental expenses that total more than 7.5% of your adjusted gross income
- Charitable donations
- Casualty or theft losses as a result of an event declared a disaster by the U.S. president

7 Is Itemizing the Only Way to Qualify for Any Deductions?

Not necessarily. There are some deductions that are considered "above-the-line" deductions, meaning they can be taken whether you choose to take the standard deduction or itemize your expenses. Above-the-line deductions reduce your adjusted gross income (AGI), while standard and itemized deductions are subtracted from your AGI. Student loan interest, health savings account contributions and traditional IRA contributions are examples of some commonly found above-the-line deductions.

If you're not entirely sure which deduction approach makes the most sense, total your qualifying expenses and see if they exceed the standard deduction for your filing status. If you do plan to itemize your deductions, be sure to keep careful documentation of your expenses in the event of an audit.


Form 1040
U.S. Individual Income Tax Return
(99)
2022
For the year Jan. 1–Dec. 31, 2022, or other tax year beginning
Your first name and initial
Last name
If a joint return, spouse's first name and initial
Last name
Home address (number and street). If you have a P.O
City, town or post office, state, and ZIP code. If you ha
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Taking advantage of allowed deductions can greatly reduce your taxable income.

If you're self-employed, a home office may provide you with valuable deductions.

Your Guide to Common Deductions and Credits

Tax deductions and credits can help lower the amount you pay to the IRS. Deductions offset your taxable income. Their dollar value depends on your tax bracket–the higher your bracket, the more valuable the deduction. You can only use most of them if you choose to itemize your tax return. Since the standard deduction is now more than double what it was three years ago, many Americans are opting not to itemize their deductions anymore.

Tax credits, on the other hand, give you dollar-for-dollar tax savings and are available to everyone who qualifies, regardless of how you file. Here are some common deductions and credits to consider when you're next preparing your taxes:

DEDUCTIONS

- **Self-Employment Expenses**

If you work for yourself, you can deduct many of the costs necessary to run your business. Those costs include everything from your internet and marketing materials to travel, meals and even insurance premiums and contributions to individual retirement plans. A home office is also a source of potential deductions; you can deduct a percentage of utilities, property taxes and homeowners insurance equal to the percentage of your home that you use solely for your business.

- **Moving Expenses**

It used to be that everyone could deduct qualified expenses related to relocating for work. Now, only active duty members of the armed forces who move because of a military order to change station may deduct qualified costs. Those costs include rental trucks, storage units, tolls and even airline tickets.

- **Retirement Contributions**

Contributions to an individual retirement account (IRA) can reduce your taxable income for the year. The amount of your deduction depends on your income level, and whether you participate in a workplace retirement plan such as a 401(k). (Contributions to a Roth IRA do not qualify for a deduction, as they are made with after-tax dollars.)

- **Capital Losses**

If you lost money on investments during the year, those losses can be used to offset some of your taxable income–provided that your capital losses exceed your capital gains for the year. You can apply

PRO TIP

If you lost money on investments and your capital losses exceeded your capital gains, you may be eligible for a deduction.

The value of items donated to charitable organizations can be used as deductions.

up to $3,000 if you're married filing jointly (or $1,500 if you're married filing separately) of those excess losses to offset your ordinary income, with any additional losses available to be carried over to subsequent years.

- **Student Loan Interest**

Taxpayers can deduct up to $2,500 in interest paid on qualified student loans in 2022. The deduction is income-dependent and the amount you're allowed to deduct is reduced or phased out completely when your income reaches the cap for your filing status.

PRO TIP

Summer camp is a deductible child care expense if it provides care while parents work. Overnight camps don't qualify.

- **Contributions to Health Savings Accounts**

If you're enrolled in an eligible high-deductible health plan and make contributions to a health savings account (HSA), you can deduct up to $3,650 ($7,300 for family coverage) in 2022. If you're 55 years old or older, you can contribute–and therefore deduct–an additional $1,000.

- **Contributions to Charity**

Donations to eligible, IRS-approved nonprofit organizations qualify as deductions. Eligible donations include cash, investments or art and even household goods donated to charitable organizations.

- **Interest on Homeownership Debt**

The interest you pay on a loan secured by your home, such as a mortgage or home equity line of credit, is a deductible expense–with limits. If your mortgage debt totals more than $750,000 (or $1 million if your loan was taken out before Dec. 16, 2017), you can deduct only a portion of the interest payments you make on it. The same applies for home equity debt used to buy, build or make significant improvements to your home, up to the limit of $750,000.

CREDITS

- **Earned Income Tax Credit**

This tax credit is aimed at helping low- to moderate-income workers counter the costs of Social Security taxes. Eligibility for the credit, and the actual value of the credit, depends on taxpayer income, filing status and the number of dependents. In 2022, the size of the credit ranges from $560 for a qualifying taxpayer without children to $6,935 for someone with three or more kids.

- **Child Tax Credit**

In 2022, the child tax credit is worth up to $2,000 per child. In order to take this credit, your child must be under age 16. The credit is only refundable up to $1,500 depending on household or individual income. The credit phases out for high-income taxpayers.

- **Child and Dependent Care Credit**
You may qualify if you paid a qualified provider to look after a child under 13 years of age, or a disabled dependent of any age, while you worked or looked for work. Depending on your gross annual income, you can claim a credit of up to $4,000 worth of qualifying expenses for the care of one individual, or $8,000 worth for two or more individuals. It's potentially refundable, which means that you may still receive this benefit even if you don't owe taxes.

- **Premium Tax Credit**
If your household income is between 100% and 400% of the federal poverty level for the size of your family, the premium tax credit can help you cover the cost of insurance purchased through the Health Insurance Marketplace.

- **American Opportunity Tax Credit**
Students enrolled at least part-time in a college or post-secondary program can receive up to a $2,500 credit to offset school costs. The credit can be claimed by the student or someone who claims them as a dependent. It covers tuition and fees, including books and supplies, but it can't be used to defray a housing costs, transportation or insurance. It can be claimed for the first four years of post-secondary education.

- **The Lifetime Learning Credit**
This credit is worth up to $2,000 per tax return for the costs of tuition and education expenses for students enrolled in eligible undergraduate, graduate and professional degree courses–including courses to acquire or improve job skills.

DON'T MISS THESE DEDUCTIONS & CREDITS

Even though the standard deduction is higher than ever, itemizing may still make sense if you can claim a lot of deductions. If you decide to itemize, don't forget to include these commonly overlooked credits and write-offs.

Out-of-Pocket Charitable Expenses

Cash gifts aren't the only charitable contributions you can claim on your return. Small, out-of-pocket costs are also deductible, from the ingredients you used to make a meal for your local soup kitchen to mileage you rack up taking members of your kids' Boys and Girls Club on a trip. While you can't write off the cost of any services you've volunteered over the course of the year, you can deduct associated expenses, such as uniforms and transportation.

State Taxes

Income taxes you've paid to your state and/or municipality of up to $10,000 are deductible on your federal return. Eligible deductions include any withholding amounts listed on your W-2 or 1099 forms, estimated tax payments and required payments to state benefit funds. If your state doesn't have an income tax, or you've made several large purchases throughout the year, you can deduct state and local sales taxes instead.

Earned Income Tax Credit

One in five people entitled to the EITC neglect to claim it, possibly because they don't identify as someone who meets the lower- to moderate-income requirements. If you took a significant pay cut, saw a dramatic reduction in hours worked or were laid off this year, take a look to see if you qualify.

Retirement Saving Contributions Credit (the Savers Credit)

Lower- to moderate-income workers can deduct a percentage of the money they've saved for retirement in an IRA or employer-sponsored plan. Depending on your AGI and filing status, you could receive a credit worth between 10% and 50% of the first $2,000 contributed to those accounts.

Mortgage Points

In addition to writing off interest paid on your mortgage, you may also be able to deduct the points paid to the lender to secure a home loan—including refinancing and lines of credit. Points paid on a mortgage are typically fully deductible in the year you purchased your home. However, if your mortgage exceeds $750,000 for a home purchased after Dec. 15, 2017 (or $1 million on loans taken out on or before that date), or you've borrowed more than $100,000 against your home, you can't deduct all your points or all the interest on your mortgage.

Lowering the Chances of an Audit

Take a deep breath. The IRS audits only about 1% of individual tax filers each year, so odds are you won't be on their list. But getting audited is a major headache, costing you time and money. So even though an audit is unlikely, it's worth doing all you can to minimize the chance that the IRS will flag your return. Here are seven things you can do to stay in that audit-free 99%.

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1 Keep Impeccable Records

It's important to keep track of all income you make, no matter what the source. Make sure to document stock dividends, bank interest, cash payments, gambling winnings, jury duty payments and unemployment benefits, then report them along with your work income.

Keep all of your receipts, especially if you plan to itemize your deductions. And don't start doing your taxes until you've received all the pertinent documents from your employers: The IRS receives copies of all your 1099s and W-2s, and its computers will check your return against them. If you fail to report income from a contracted job, for example—perhaps you accidentally threw away the envelope that contained a 1099—the IRS will be privy to the discrepancy, which could be enough to prompt an audit, even a year or two later. Keeping good records is the single most important step you can take to avoid an audit. What's more, in the unlikely event you do get audited, having accurate records will allow the process to move much more smoothly and efficiently—and knowing you've maintained good records may even decrease your stress level in the process.

2 Double-Check Your Figures

We all make silly mistakes from time to time—just try to avoid making them when you fill out your tax forms. Writing the wrong number or putting it in the wrong box is one of the most easily avoidable mistakes that taxpayers make every year. Others include forgetting to sign your return and leaving off your address or Social Security number. Be sure to fill in all the required boxes, and double-check the figures on all pages of your return—whether you do your taxes by hand or use a software program. Failing to do so could lead to an error that raises the suspicion of the IRS.

3 Be Careful About Claiming Deductions

Claiming deductions can save you a lot of money, but if done incorrectly—or if your deductions are unusually large—it can serve as the basis for an audit. Before you file your taxes, carefully read the rules for what constitutes a legal deduction. Remember: There is often a fine

PRO TIP

Tax-prep software can help avoid math errors, but it's still critical to be sure you've entered all your information accurately.

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It's unlikely that you'll be audited, but it's worth keeping good records just in case.

Returns filed online have a much smaller error rate than paper returns do.

line between what qualifies and what doesn't. For example, your daily commute doesn't qualify, but onetime trips for business purposes often do. If you're self-employed or own your own business, reporting losses for three consecutive years or more might cause an auditor to investigate the legitimacy of your work.

When it comes to home-office deductions, the IRS has become more strict in recent years. As of 2018, W-2 employees who work from home can no longer deduct home-office expenses. If you're self-employed, you may continue to deduct home-office expenses from your self-employment income, but make sure you meet the two primary requirements: You must use the part of your house you're claiming for business "regularly" and "exclusively," and your home must be your "principal place of business." If you meet these requirements, consider using the IRS' simplified option for home-office deductions, which was introduced in 2014.

4 File Online

If you're someone who prefers to do your taxes by hand, consider that your chances of making a mistake go down dramatically if you file online. According to the IRS, the error rate for paper returns is 21%, while for electronic returns it's 0.5%. When you file online, most of the math is done for you automatically.

5 Estimate the Value of Donations at a Fair Price

Many people take advantage of deductions offered by the IRS for charitable giving. If you donate goods rather than money, however, it's up to you to estimate their value. This can be a tricky exercise. For less-expensive items, Goodwill and the Salvation Army offer online value guides, based on sale prices in their stores, that can help you determine how much to claim. Remember: Items must be in good condition or better in order for you to deduct them. If you're in doubt about the value of donated goods, consider having a professional appraiser write a letter you can include with your tax return. For items valued at $5,000 or more, an official appraisal is required.

6 Be Truthful and Realistic

As a general rule, people who report their income in full will probably not be audited. That includes reporting even small amounts of cash you've received for a side job or two. If the person or business you worked for happens to get audited, the IRS will be able to track their payment to you, which could lead to you getting audited, too. When in doubt, err on the side of reporting and documenting too much. Avoid estimating deductions or rounding up to implausibly tidy figures.

7 Be Average

Having a middle-class income puts you in the class of people least likely to get audited. Taxpayers filing individually or jointly who earn less than $200,000 per year but more than the very lowest earners tend to escape the suspicions of the IRS. Higher earners are more likely to take a lot of deductions and contribute more to charities, while lower earners are more likely to file for the Earned Income Tax Credit, all of which can potentially raise red flags for auditors.

A handful of audits each year are random, so there's still a chance you'll get audited. Keep good records and be prepared to back up your claims. And be sure to sign your returns, something thousands of people each year forget to do.

All About Extensions

You can request more time to file your taxes in certain situations, but make sure you know the rules first.

Individuals can file for an extension by submitting Form 4868. As long as you submit this form to the IRS by this year's annual federal tax deadline–April 18, 2023–the IRS will automatically extend your filing deadline to Oct. 16. Before requesting an extension, here are a few important things to know:

Extensions Do Not Apply to Paying Taxes

All Americans have until April 18 to both file and pay their taxes without a penalty. If you request an extension beyond that, you'll have extra time to gather the information you need to file your return. You won't get an extension on the amount of time you have to pay your taxes, however. You still must pay any taxes due by the filing deadline or face interest, penalties and late fees, which will accrue until you pay your taxes. (See "A Primer on Penalties" table on page 50.)

tax
time!
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Wake up! Be sure to know all your options for filing an extension.

PRO TIP

Need more time on your tax return? Fill out and submit Form 4868 to the IRS by April 18, 2023, for a six-month extension.

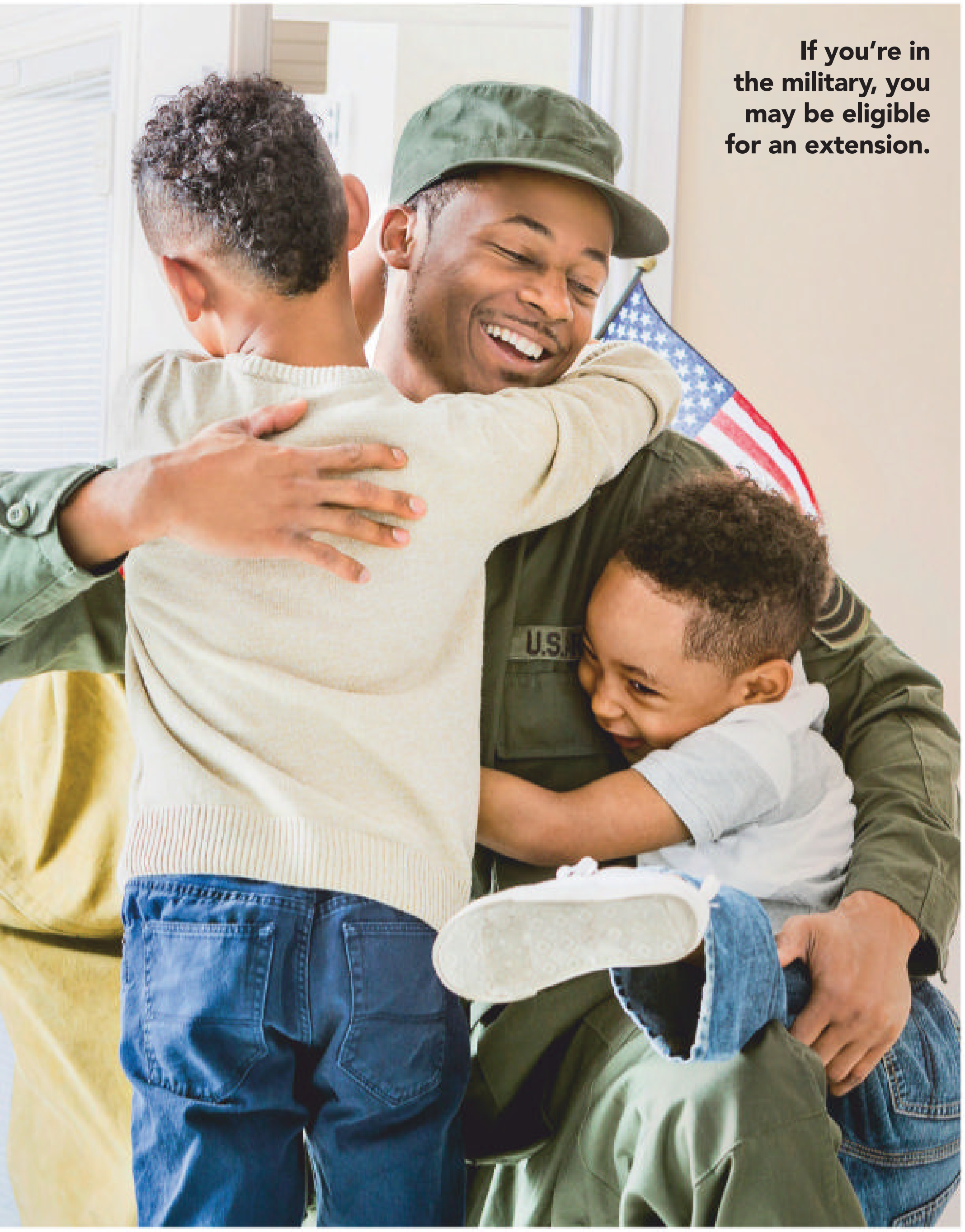
To avoid penalties, estimate the amount of income tax that you think you owe and pay that amount to the IRS. You can estimate your taxes by filling out as much of your tax return as you can to get an idea of how much you probably owe.

You may pay your estimated taxes using the Electronic Federal Tax Payment System. If you can't pay your taxes all at once, consider filing on time and setting up an installment plan with the IRS. You may also be able to request a short payment extension of between 60 to 120 days. You will still be subject to penalties, but they will be lower than failure-to-pay penalties.

A PRIMER ON PENALTIES

How the IRS calculates what fines you'll be charged.

- If you don't pay or file your taxes by the filing deadline, you may be subject to IRS penalties.
- If you don't file for an extension on time and you file your taxes late, the IRS may impose a failure-to-file penalty. The penalty is usually 5% of your unpaid taxes for each month or the portion of the month you are late. The penalty will not exceed 25% of your unpaid taxes.
- If you don't pay your taxes by the filing deadline, you may be subject to failure-to-pay penalties of 0.5% of your unpaid taxes for each partial or full month you are late.
- If the failure-to-file and failure-to-pay penalties both apply in any given month, you will not be subject to more than a 5% penalty.
- If you file your return more than 60 days after the due date or extended due date for filing, the minimum penalty is the smaller of $435 or 100% of unpaid taxes.
- You'll be charged interest on your unpaid balance at the federal short-term interest rate plus 3%. As of Novemer 2022, the short-term interest rate is 4.03%.
- You can avoid penalties if you can show reasonable cause—like illness, fire or natural disaster—for not filing or paying on time. You'll need to show the IRS documentation of reasonable cause.



If you're in the military, you may be eligible for an extension.

Reasons to File for an Extension

Below are some common scenarios that might lead you to ask for more time.

- **Incomplete Tax Documentation** If you do not have the necessary paperwork to finish your taxes, an extension can give you extra time to gather it.
- **Unexpected Events** An illness, a death in the family and natural disasters are other common reasons people request filing extensions.
- **You're in the Military** The IRS grants members of the military who are overseas or in combat an automatic extension.
- **Recharacterizing a Roth IRA** If you roll a traditional IRA into a Roth IRA, you must pay income tax on the balance at the time of conversion. But the IRS allows you to recharacterize the Roth back to a traditional IRA at any time. Still, this process can take a lot of time. If you are recharacterizing a Roth to avoid paying taxes on the balance, and the process isn't done by the time you need to file, you may want to file an extension.
- **An Overbooked Accountant** An extension not only gives you more time, it gives your accountant more time to go over your tax information and help you get the best refund possible.

Be aware of deadlines so you can avoid paying penalties.

SECTION

04

Can't-Miss Tax Moves

Harness these strategies to maximize deductions and more

Hitting the Tax Withholding Sweet Spot

For many taxpayers, their employers withhold a portion of each paycheck and send the money to the IRS. Your withholding rate determines the amount withheld. If your taxes aren't being withheld–for example, you're self-employed–you need to pay estimated taxes throughout the year.

It's important to set your withholding rate so it covers your full tax liability for the year. Withhold too little, and you'll owe taxes at the end of the year. Withhold too much, and you'll get a tax refund. That extra cash sounds nice in theory, but it means you've provided Uncle Sam with a no-interest loan.

When the new tax code went into effect in 2018, it may have dramatically altered your tax liability. If you didn't quite hit the tax withholding sweet spot last year, you'll want to tweak your withholding this year to make your estimated tax payments more accurate.

Changing Your Withholding Through Your W-4

To change how much is withheld from every paycheck, you'll need to change your W-4 form (which your employer can provide). You can file a new W-4 form with your employer at any time. The W-4 uses two factors to determine your appropriate withholding rate: your marital status and the number of allowances you claim. In theory, you can claim as many allowances as you like, and each one reduces the amount your employer will withhold from your paycheck.

Don't be afraid to change your witholding rate; just update your W-4 form.

The standard deduction is now $12,950 for single taxpayers ($25,900 for joint filers), which has made up for the loss of the personal exemption for many people.

Meanwhile, the child tax credit in 2022 has everted back to its original limit of $2,000 per dependent child under the age of 16. In 2021, the expanded child tax credit was worth up to $3,600 per dependent based on income levels.

Update Your W-4

If you received a large refund last year, you may want to increase the number of allowances in your W-4 this year. If last tax season came with a surprisingly large tax bill, decreasing the number of allowances in your W-4 will lead to a greater withholding.

PRO TIP

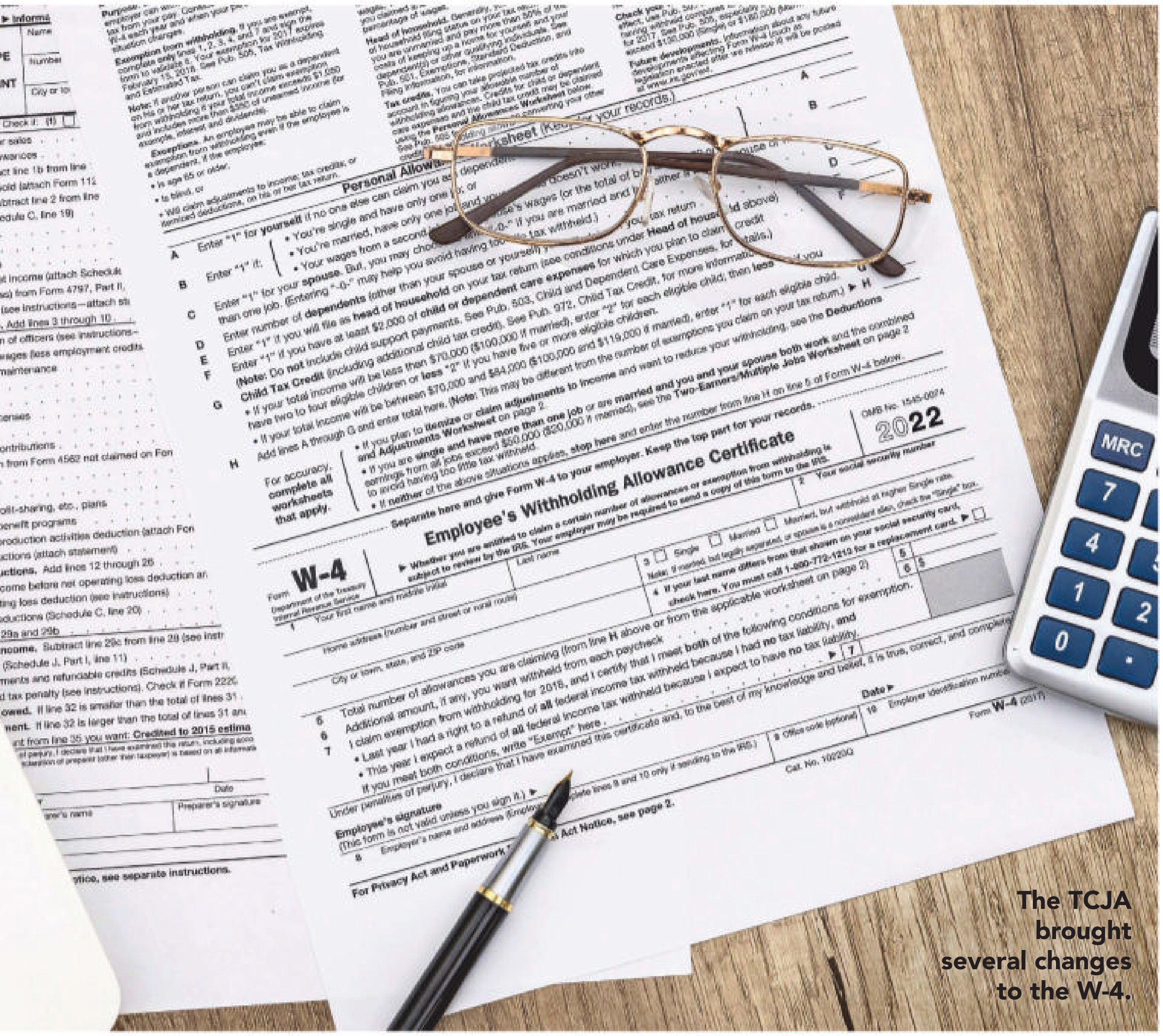
Your tax liability is a moving target, and your withholding should move with it so you can avoid surprises at tax time.

Understand Your New W-4

This form can have a big impact on your cash flow, as well as your end-of-year tax bill. Understand how each section of the W-4 can affect your finances.

Employee's Withholding Certificate

This is the section you must submit to your employer. It includes your personal information and your signature certifying that the information is accurate. This is also where you'll claim dependents and any extra withholding you want for the year. Note that there is no additional allowance for your spouse as a dependent and only one place to mark allowances for dependent children. Remember, the higher your total number of allowances, the less money will be withheld from each paycheck.



The TCJA brought several changes to the W-4.

Multiple Jobs Worksheet

This worksheet will help you calculate your withholding if your spouse also earns wages at a job or if you are single and work two or more jobs. It's meant to prevent you from having too little withheld and ending up with a large tax bill. At first glance, this section looks intimidating. Fortunately, when you take it one step at a time, the process is actually reasonably straightforward.

Deductions, Adjustments and Additional Income Worksheet

Use this section to claim the standard deduction, or to note your estimated itemized deductions on your tax return.

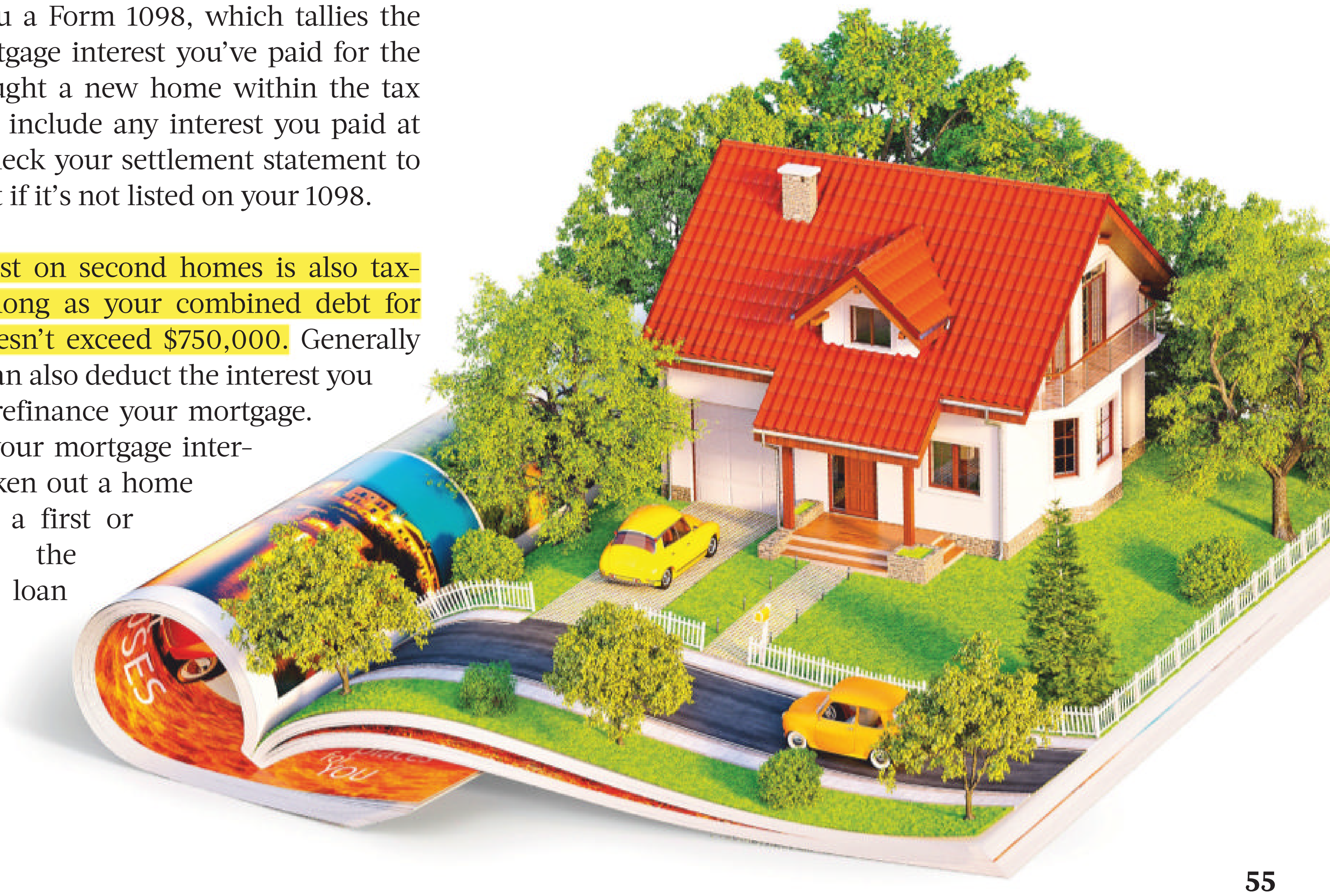
The Tax Incentives of Homeownership

Owning a home is a big responsibility. Fortunately, the government offers certain incentives in the form of tax breaks to make homeownership easier. Check out this list to learn how to make the most of the tax breaks you qualify for.

1 Interest on Your Mortgage and/or Home Equity Line

The biggest tax benefit for most homeowners is the interest you pay on your mortgage–you can deduct all interest paid in a year on mortgages of up to $750,000. You generally don't need to calculate this amount yourself; each year, your lender should send you a Form 1098, which tallies the amount of mortgage interest you've paid for the year. If you bought a new home within the tax year, be sure to include any interest you paid at your closing–check your settlement statement to find the amount if it's not listed on your 1098.

Mortgage interest on second homes is also tax-deductible, so long as your combined debt for both homes doesn't exceed $750,000. Generally speaking, you can also deduct the interest you pay when you refinance your mortgage. In addition to your mortgage interest, if you've taken out a home equity loan on a first or second home, the interest on that loan may also be deductible. The combined value of your mortgage and your home equity loan must not exceed $750,000. In addition, the home equity loan must be secured by your home and cannot be used for personal expenses, such as paying off credit card debts or car payments.



Owning a home offers multiple tax benefits.

2 Property Taxes

Your local property taxes, if you live in a state that assesses them, are deductible up to $10,000. If you pay these taxes through an escrow account, the amount you've paid in property taxes should be included in the Form 1098 from your lender. If you pay your property taxes directly to the municipality you live in, keep a copy of your property tax statement for your records. If you've purchased your home in the past year, check the settlement statement from your closing to make sure you've captured all property taxes paid for the year.

3 Mortgage or Home Equity Points

Have you bought a home, refinanced or taken out a home equity line of credit within the year? If so, you may have paid points to the lender in order to get a lower rate on your loan. These points are usually deductible and should appear on the 1098 statement you receive from your lender along with the interest you've paid on your loan.

Up to $10,000 of property taxes are deductible each year.

4 Energy-Efficiency Incentives

If you've installed solar panels or a solar water heater in the past year, you are likely eligible for a federal tax credit equal to 30% of the cost of the system. Some states also offer tax credits for energy-efficient home improvements–check out energy.gov/savings to learn more.

5 Home Office Expenses

Do you have a home office or run a business out of your home? If so, you can deduct a portion of expenses like mortgage interest, property tax, utilities and home repairs from your taxes. However, you can only deduct these expenses if you are self-employed. Also, your business must meet some strict guidelines to qualify for home office deductions:

- Your home office must be a place where you regularly conduct business.

- Your office must be located in a defined area of your home. "The end of the dining room table" does not count as an office for tax purposes.

- The space must be used exclusively for business; it cannot double as your guest room or home gym.

The IRS lets you choose between two means of calculating your expenses: the "simplified option" and the "regular method." With the simplified option, you'll receive a deduction of $5 per square foot of office space, up to 300 square feet. With the regular method, your deduction will be based on the percentage of your home used for office space. You'll need to total expenses like mortgage interest, utility expenses, home insurance, maintenance or repair costs and depreciation, then multiply the sum by the percentage of your home that your office occupies.

For more information, see IRS Publication 587, Business Use of Your Home.

Rewards for Do-Gooders

It can feel great to donate money to causes that are important to you. Charitable giving not only feels virtuous, it can also reduce your taxable income, assuming you itemize your deductions. However, with a relatively high standard deduction in place, many people now opt not to itemize their deductions. If you plan on donating to charities and choose to itemize, make sure you understand the rules for taking charitable deductions.

The Tax Benefits of Charitable Gifts

When you donate money or property to a qualified nonprofit organization, you can also generally deduct the cash value of your charitable gift from your taxable income.

If you volunteer for a nonprofit, you can also take advantage of a less well-known tax benefit: You can deduct any out-of-pocket expenses that you incur as a volunteer, including any supplies or uniforms you purchase, and the mileage or public transportation costs required to get to and from the nonprofit's events or office.

PRO TIP

You can generally deduct charitable contributions up to 50% of your AGI, with some limitations.

How to Make Sure Your Charitable Donation Is Tax-Deductible

While most donations to nonprofit organizations are eligible for a tax deduction, there are still a few things you should check to ensure it is.

- The organization you're making a donation to must be recognized by the IRS as a tax-exempt group. Nonprofit schools and hospitals, social service and religious organizations, qualified medical research organizations and other nonprofits generally qualify. Still, check the IRS website at apps.irs.gov/app/eos/ to make sure the organizations you support do qualify as tax-exempt groups.

- In most cases, to qualify for a deduction, your financial contributions to charities can't exceed 60% of your adjusted gross income (AGI).

- When donating household items such as clothing, furniture or appliances, the property you're donating must be in good condition to deduct its fair market value. If you're donating noncash gifts that are worth more than $500 in total, you must also fill out Form 8283.

- Your gift must have been given in the tax year in which you're filing.

Document Your Charitable Giving

Consider using the Charitable Giving Worksheet (see page 104) to track your donations throughout the year. The documentation you'll need varies de-

Volunteer work is good for your community—and your wallet.

pending on if you're giving cash or property, as well as the value of the gift. Be aware of these guidelines:

- When giving cash, you'll need either a receipt from the charity, a canceled check, or a bank or credit card statement showing the charge. If you give through a payroll deduction, you'll need to keep a pay stub, your W-2 or documentation from the organization showing your donation and the name of the nonprofit.

PRO TIP

Use the helpful Charitable Giving Worksheet on page 104 to log all of your donations throughout the year.

- If you make a charitable gift of property that is worth less than $250 in total, you will need to get a receipt from the organization that includes the name of the nonprofit, its location, the date you made your gift and a description of the items you donated. You'll also need to document the fair market value of each item, and how you determined that value. The IRS website (irs.gov) has a number of guidelines to help you with this.

- For cash gifts valued at $250 and up, you'll need additional written documentation that states the amount donated, and whether you received any tangible benefits in exchange for your gift.

- For noncash gifts worth more than $250, the IRS requires additional written documentation. For instance, to deduct a gift of property valued at more than $5,000, the IRS requires an independent appraisal of the item.

For more information, check out IRS Publication 526, Charitable Contributions.

About Retirement Savings and Taxes

The government provides many tax-advantaged tools to encourage you to save for retirement, including retirement accounts and tax credits. These tools help you reduce your taxes, which in turn allows you to save even more money. The tools you decide to use will depend on whether you want to lower your taxes now or in the future. Here's what you need to know about the tools that are available to you.

Pretax Retirement Accounts

You can contribute to some retirement accounts with pretax money—meaning the money is not taxed before you put it in your account. These accounts, which are also called tax-deferred accounts, offer a way to reduce your tax bill now. Common pretax accounts include:

- **401(k)** A 401(k) is an employer-sponsored retirement account that allows you to set aside a portion of your paycheck before taxes are taken out. This serves to reduce your taxable income, lowering the amount you pay in income taxes. Your employer may contribute to the account as well. For example, say you make $50,000 a year and your employer offers a 3% match. If you contribute at least 3% of your annual salary, or $1,500, your employer will put an additional $1,500 into your account.

Most plans offer participants a choice of mutual funds to invest in. The money in a 401(k) has the potential to grow tax-free until you begin making withdrawals in retirement. At that point, your withdrawals will be taxed as ordinary income. There are some restrictions on 401(k) accounts, including contribution limits. (See the RETIREMENT ACCOUNTS AT A GLANCE table, page 60.)

- **Traditional IRA** A traditional individual retirement account (IRA) is another form of tax-deferred retirement saving. If you meet certain requirements, your IRA contributions are tax-deductible, which assists you in lowering your income tax now. As with a 401(k), there is no tax impact on your earnings until you begin taking withdrawals during retirement. A custodian such as a bank or retail broker holds the account, and you will typically have a wide range of investment options available to you based on the offerings of your custodian.

- **SIMPLE IRA** Savings Incentive Match Plan for Employees (SIMPLE) IRAs can be opened by any employer, including self-employed individuals. As with a 401(k) plan, a SIMPLE IRA lets employees make pretax contributions. Employers must make matching contributions or nonelective contributions, which are paid to employees whether or not they contributed themselves. Employers can take a tax deduction based on their contribution, and withdrawals from the account are taxed as ordinary income.

PRO TIP

Saving a small amount for retirement won't have a big impact on your tax bill, but it can move you closer to your long-term goals.

- **SEP IRA** Simplified Employee Pension (SEP) IRAs are traditional IRAs designed for self-employed individuals. Any business owner with one or more employees can open one, as can anyone with freelance income. Only employers may make contributions. These contributions are tax-deductible for the business owner and are held in the SEP account in the employee's name. Withdrawals are subject to income tax.

After-Tax Retirement Accounts

Retirement accounts that use after-tax dollars are not taxed when you withdraw from them in your retirement. If your tax burden at that point is lower than it is now, however, you'll end up reducing your lifetime tax burden. Here are two frequently used after-tax accounts:

- **Roth IRA** The main difference between a traditional IRA and a Roth IRA is that Roth IRAs are funded with after-tax dollars. Your contributions and any earnings grow tax-free, and your withdrawals generally are not subject to income tax. Contributions are not tax-deductible. Though you won't see tax benefits now, you will benefit by paying no income tax later, when you withdraw the funds.

PRO TIP

You can contribute to both a 401(k) and an IRA if you meet the eligibility requirements for both accounts.

- **Roth 401(k)** Roth 401(k)s function just like traditional 401(k)s, except your contributions are made with after-tax dollars and are not subject to tax when you make withdrawals in retire-

RETIREMENT ACCOUNTS AT A GLANCE

Account Type	Contribution Limit	Catch-Up Contribution Limit [1]	Withdrawal Limitations
Traditional 401(k)	$20,500	$6,500	Withdrawals subject to 10% penalty before age 59½
Roth 401(k)	$20,500	$6,500	Withdrawals subject to 10% penalty before age 59½
Traditional IRA	$6,000[2]	$1,000	Withdrawals subject to 10% penalty before age 59½
Roth IRA	$6,000[3]	$1,000	Withdrawals subject to 10% penalty before age 59½, minimum distributions required after age 70½
SIMPLE IRA	$14,000	$3,000	Withdrawals subject to 10% penalty before age 59½, minimum distributions required after age 70½
SEP IRA	25% of your net earnings from self-employment up to $61,000	N/A	Withdrawals subject to 10% penalty before age 59½, minimum distributions required after age 70½

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[1] You can make additional catch-up contributions to tax-advantaged retirement accounts if you are 50 or older.

[2] As of 2020, there is no longer any age limit for contributions to traditional IRA accounts. Those contributions are tax-deductible as long as you are not covered by a retirement plan at work. Depending on your income, some or all of your contributions may be deductible even if you are covered by a workplace retirement plan.

[3] You can contribute to a Roth IRA account at any age if you (or a spouse, if you're married filing jointly) have taxable compensation and your modified gross adjusted gross income is less than $144,000 for single filers, or $214,000 for joint filers.

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Contributions to retirement accounts may help lower your taxable income.

ment. These accounts are often used by people who plan on their tax bracket being higher in retirement than it is now.

You can make contributions for tax year 2022 to all IRA accounts through April 18, 2023. Note that contributions to 401(k) accounts must have been made by Dec. 31, 2022. Be sure to comply with income and eligibility requirements for the account you select.

Retirement Savings Contributions Credit

When you contribute to your retirement plan, you may be able to take advantage of the retirement savings contributions credit, or saver's credit, to reduce the amount you owe on your taxes dollar-for-dollar. To claim the saver's credit, you must be 18 or older, and you can't be a full-time student or be claimed as a dependent on anyone else's taxes. The amount of the saver's credit is equal to a percentage of your contribution up to $2,000 and depends on your filing status and AGI. The chart below can help you calculate this credit for 2022.

Check IRS Form 8880 to make sure that you qualify for the saver's tax credit before you take it. Go to irs.gov/retirement-plans for up-to-date information on retirement account contributions and withdrawals.

RETIREMENT CONTRIBUTION CREDIT

Married Filing Jointly	Head of Household	All Other Filers	Credit Rate
AGI Up to $41,000	AGI up to $30,750	AGI up to $20,500	50% of your contribution [4]
$41,001 to $44,000	$30,751 to $33,000	$20,501 to $22,000	20% of your contribution [4]
$44,001 to $68,000	$33,001 to $51,000	$22,001 to $34,000	10% of your contribution [4]

[4] Up to $2,000 (or $4,000 for taxpayers filing jointly)

Understanding Taxes on Your Investments

Although you'll owe taxes on the money you earn on taxable savings and investment accounts, these are still important tools for generating wealth. The amount of taxes you must pay depends on many factors, including the source of that income. Knowing how this system works helps you make investment choices that can save you money on your return.

Money lost on stocks can help offset gains.

Unearned Income

The IRS labels money you earn on your taxable savings and investment accounts "unearned income." Any money you earn over the year that doesn't come from salary, wages or tips falls under this unearned income category. Thus unearned income includes interest you earn on certificates of deposit (CDs), dividends from the stocks you own, or any capital gains on the sale of securities, such as stocks, bonds and mutual fund shares.

Reporting Taxable Interest and Dividends

If your taxable interest income and dividends total $1,500 or less for tax year 2022, you can enter the value on your form 1040 on lines 8a through 11–much as you do with the information you pull from your W-2. If not, you may need to report unearned income differently on your tax return.

If your investment income from taxable interest and/or dividends exceeds $1,500, you'll need to report it separately on form Schedule B. That form, which you file along with your 1040, requires you to list the amounts and sources of your interest and dividend income rather than simply reporting it in aggregate. In most cases, the income from interest and dividends is taxed as ordinary income at your marginal tax rate.

Reporting Short-Term and Long-Term Capital Gains

The IRS requires you to provide details about the sale of any assets (including financial vehicles like stocks, bonds and mutual funds, as well as other assets you sell for profit, like a car, a house or artwork) on Form 8949 and Schedule D. The tax rate on capital gains from such sales depends on how long you held the assets before selling them. If you purchased shares of a company in January and sold them later that year for a profit, it would be considered a short-term capital gain. Short-term gains are taxed at the same rate as ordinary income. If you held the stock for a year or more before selling, though, the profit would be considered a long-term capital gain and would be taxed at a more favorable rate—between 0% and 20%, depending on your taxable income.

Investors who buy and sell often tend to pay far more in taxes than those who buy assets and hold them for a longer period.

Long-term investments often trigger smaller tax bills than short-term holdings.

CAPITAL GAINS RATE

Taxable Income (Filing Jointly)	Taxable Income (Single)	Tax Rate on Capital Gains
$0 to $83,350	$0 to $41,675	0%
$83,351 to $517,200	$41,676 to $459,750	15%
$517,201 and up	$459,751 and up	20%

A Silver Lining in Capital Losses

When you sell a security like a stock or mutual fund for less than the purchase price, you incur a capital loss. Capital losses can reduce your tax liability by offsetting capital gains, and may also offset some of your earned income. For example, if your sale of mutual fund shares result in a $5,000 gain, but the sale of shares from another mutual fund resulted in a $5,000 loss in the same year, the gains and losses would offset each other, resulting in no net tax liability.

PRO TIP

Capital gains tax also applies to the sale of a home; tax law lets you exclude some or all of your profit if you meet certain conditions.

If your losses exceed your gains in a tax year, you can apply the excess losses to offset up to $3,000 ($1,500 if you're married and filing separately) of your ordinary income. If your realized losses exceed that $3,000 limit in a given tax year, they can be carried forward to help offset gains and income in future years. This is how some investment losses can reduce your taxes.

Cutting Your Taxes Through Tax-Loss Harvesting

Some investors reduce their tax bills through a strategy known as tax-loss harvesting. The strategy involves selling an underperforming position before year-end to realize a loss that will offset gains you've earned on other holdings that year.

Your investment goals and your ability to tolerate risk should drive your investment decisions. But taking appropriate steps to reduce taxes on your investments can boost your returns significantly over time. What really matters in the end is not how much your investment returns before taxes, but how much of those returns you get to keep.

Is an HSA Right for You?

While signing up for health insurance, you may have noticed an option to set up a health savings account, or HSA. An HSA can be a powerful, tax-advantaged tool to help save for medical expenses. These accounts can be an effective way to limit health care costs and save for expenses your insurance doesn't cover. However, not everyone qualifies. Here's how to know if you qualify and what you need to know about how HSAs work.

Who Qualifies for an HSA?

You can qualify for an HSA only if you are enrolled in a high-deductible health insurance plan (HDHP). Monthly premiums for HDHPs tend to be much lower than those offered by other plans, which can save you money in the short term. HSAs can help cover the gap between what these plans cover and other medical expenses that arise.

The federal government defines a high-deductible plan based on deductible size and the maximum amount you have to pay out of pocket for your health insurance plan. For 2022, an individual plan with an out-of-pocket maximum of $7,050 or more and a minimum deductible of at least $1,400 qualified as an HDHP. For a family plan to qualify as an HDHP, it must have an out-of-pocket maximum of $14,100 or more, with a minimum deductible of at least $2,800.

Your employer may offer access to an HSA within the health care plan. If it doesn't, you can open one yourself through your bank, credit union or brokerage firm. If you're unsure whether you qualify, check in with your employer's human resources department, or call your insurance provider's member benefits department.

How an HSA Works

The federal government sets a cap on the amount you can contribute to your HSA each year. For 2022, the limit for individuals is $3,650, while the limit for families is $7,300. Adults 55 and over can make an additional catch-up contribution of $1,000. Contributions for a given tax year can be made any time during the year up to April 15 of the following year. The balance in your HSA rolls over each year, unlike flexible spending accounts, which don't allow rollovers.

If your HSA comes through your employer, you can often set up direct deposits from your paycheck into your account. You can also make deposits from your bank or brokerage account. Once you have money in your HSA, you can also invest it in mutual funds and stocks.

To spend the money in your account, you will receive a debit card associated with your HSA. You can use it to cover qualified medical expenses that your health care plan doesn't cover.

PRO TIP

If you don't have access to an HSA through your employer, ask your financial adviser or a licensed broker about setting one up.

You can use HSA funds for copays, deductibles and other medical expenses.

Hearing aids are considered a qualified medical expense.

Qualified expenses include, but are not limited to:

- Eyeglasses and contacts
- Breastfeeding supplies
- Acupuncture
- Hearing aids
- Wheelchairs

Keep records of your purchases in case the IRS asks you to prove that they are qualified expenses during an audit.

If you're over 65 and enrolled in Medicare, you can no longer contribute to an HSA. However, you can continue to spend the money in an existing HSA account as long as you use it for qualified expenses like those listed above.

Tax Advantages

There are three main tax advantages to holding a health savings account.

First, if you contribute to your HSA via payroll deduction, you can put pretax money into your account, which lowers your taxable income, so you'll owe less income tax.

Second, any growth in your HSA is tax-free. That means you can take advantage of the magic of compounding interest.

Finally, as long as you're using the money in an HSA to cover qualified expenses, you don't owe income tax on your withdrawals. That said, withdrawals made to cover unqualified expenses will be taxable.

PRO TIP

The balance of your HSA rolls over from year to year if not used; you don't have to worry about losing your contributions.

2022 HSA CONTRIBUTION LIMITS

Individuals	Families
$3,650	$7,300

NOTE Adults 55+ can make an additional catch-up contribution of $1,000

What You Need to Know About Estate Taxes and Passing Money to Your Heirs

Knowing the tax rules can help you pass on more of your money to your loved ones while minimizing taxes. The majority of people don't need to worry about estate and gift taxes–fewer than one out of every 1,000 estates owed federal estate tax in 2018, according to the Center on Budget and Policy Priorities. But if you are wealthy and hope to transfer wealth to future generations, you should understand how the IRS might try to take a share. After all, the less you and your estate pay in taxes, the more money will be available to improve the long-term financial security of your family.

A well-crafted estate plan can help you meet your goals while minimizing your tax liability. It's important to understand the three types of taxes that the IRS levies on gifts and inheritances:

Federal and State Estate Taxes

Relatively few families have to worry about paying federal estate taxes. For 2022, the estate tax exemption is $12.06 million. It jumps to $12.92 million for 2023. For estates valued above those limits, the tax rate is 40% on the assets above the threshold. However, 12 states and the District of Columbia levy taxes on their residents' estates.

Those taxes range from 0.8% to 20%, and come on top of any federal estate tax. Some states have a lower exemption threshold than the federal limit, with some starting as low as $1 million. In these cases, an estate that isn't big enough to trigger federal estate taxes might still owe estate taxes at the state level. Six states currently charge an inheritance tax (between 10% and 18%) on residents who receive a bequest. The tax is payable by the beneficiary, as opposed to estate taxes which are paid by the estate. Fortunately, spouses typically are exempt from that tax, and family members often pay less or also receive a full exemption.

Federal Gift Taxes

Taxpayers who think they might end up with an estate large enough to trigger estate or inheritance taxes can give away some assets now to reduce that tax exposure. For 2022, the federal government allows individuals to make tax-free gifts of up to $16,000

PRO TIP

Whether you have a large estate or not, it's critical to have an up-to-date will that reflects your wishes for your children and your assets.

Estate planning can help minimize taxes on gifts to your heirs.

in cash or assets to as many people as you like each year ($17,000 for 2023).

For example, a couple might each give away $16,000 to each of three children, creating a tax-free transfer of $96,000 to the next generation ($16,000 x 3 children x 2 individuals = $96,000).

What's more, the couple could repeat those transfers every year for as long as they had assets they wanted to pass along to their beneficiaries. Over time, these gifts could significantly reduce the size of their estate before it might be subject to an estate tax, thus creating a cost-effective way to avoid a potentially costly estate tax bill, and allowing their heirs to enjoy their assets while their parents are living.

PRO TIP

You generally only have to worry about the federal gift tax if you give large amounts of money to friends or family members.

If you give more than $16,000 to one person in a single calendar year, you won't suffer any immediate tax consequences. However, gifts that exceed the $16,000 annual gift tax limit do count against your individual estate tax limit of $12.06 million in 2022. For example, if you give $20,000 to each of three children ($4,000 more than the limit), your federal estate tax exemption would decline by $12,000. For that reason, planning ahead can allow you to transfer enough assets to avoid estate taxes, despite the annual gifting limits.

The Generation-Skipping Transfer Tax

Some individuals with large enough estates to be concerned about the estate taxes choose to leave some or all of their assets directly to their grandchildren, skipping one round of estate taxes. Otherwise, the money would be taxed when they leave it to their children–and then again, when their children leave it to the third generation. A generation-skipping transfer isn't free, however; it's subject to a generation skipping transfer tax (GSTT). For 2022, you can transfer up to $12.06 million ($24.12 million as a couple) to your grandchildren before a 40% tax applies to the estate.

What's Estimated Tax, and Who Pays It?

The tax system operates on a "pay-as-you-go" basis. If your taxes aren't being withheld from your income, the IRS expects you to pay estimated taxes four times a year, usually in January, April, June and September.

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Self-employed? You'll likely need to pay quarterly estimated taxes.

If you work full-time for an employer, your company typically withholds federal taxes from your paycheck. But if you're self-employed–or if you have a side gig on top of a day job, get a big alimony check or win a prize–you likely need to make estimated tax payments in order to avoid both penalties for underpayment and a big bill when your taxes are due. Here's what you need to know:

Who Should Make Estimated Payments?

The most common category of people who must pay estimated taxes are the self-employed. But many other people should make estimated payments, too, including:

- Retirees who take required distributions from retirement plans
- People who earn income via the gig economy
- Anyone who wins a prize that has cash value
- Anyone who expects to owe $1,000 or more on their taxes at the end of the year

How Much Should You Pay?

The IRS generally expects you to make quarterly payments that equal at least 90% of your estimated tax liability or 100% of the tax shown on your return for the previous tax year. You can pay whichever of those amounts is smaller via the Electronic Federal Tax Payment System at eftps.gov.

Note that the last estimated tax payment for 2022 is due on Jan. 17, 2023. The first estimated payment for the 2023 tax year is due on April 18, 2023. Plan for future payments now to avoid a painful cash crunch at tax time.

PRO TIP

Want to avoid penalties for underpayment? Aim to make estimated payments equal to 100% of last year's taxes.

Beware of Tax Scams

Unfortunately, there will always be criminals trying to get their hands on your money. Some of the most despicable are crooks who take advantage of the fears and insecurities that many people have when it comes to taxes. The best way to recognize these bad guys? Learn about the most common schemes they try to pull. And if a scammer contacts you, report them to the authorities immediately. Take a look at some prevalent tax-related scams, along with a few tips on how to keep your money—and your personal information—safe.

Stay alert to avoid tax scams.

IRS Impersonators

The "IRS Agent" Phone Call

The phone rings. When you answer, a voice on the other end says something like: "This is Agent Smith with the IRS. You owe $1,000." This blood-chilling greeting is followed by increasingly aggressive demands to wire the funds or face immediate arrest or deportation. Other times, they'll demand your debit card information. Here's the thing: Real IRS agents don't call out of the blue and demand immediate payment—and they certainly do not threaten people over the phone.

What You Can Do If you're unlucky enough to receive one of these calls—and there's a good chance you will at some point—ask for the caller's name, title and phone number, and report that information directly to the police.

"IRS" Phisher-Men

Phishing scams use email to try to steal personal information. One common ploy is to send emails purportedly from the IRS claiming that you're due a refund or owe money and that you need to send your Social Security number or other private information to resolve the issue.

What You Can Do Never email private information. (One exception: Some accountants and other professionals may set up a secure email requiring a private pass code to reveal its contents.)

Avoid giving personal or financial information to people you don't know.

Other Impersonators

- **Crooks Pretending to Be You** A criminal who has your Social Security number can file a false return in your name and collect a fraudulent refund.

What You Can Do Share your Social Security number only if absolutely necessary. If you think someone may have filed a tax return using your identity, call the IRS Identity Protection Specialized Unit at 800-908-4490. Also fill out Form 14039, the IRS Identity Theft Affidavit.

- **Crooks Pretending to Be a Real Charity** Be on the lookout for these vultures if you've recently lost a loved one to an illness mentioned in his or her obituary. You may get a call from someone claiming to represent a charity dedicated to curing cancer or ending heart disease.

What You Can Do Check the IRS website at apps.irs.gov/app/eos/ to see if the organization is a qualified tax-exempt organization. If it's not, keep your money in your pocket.

- **Crooks Pretending to Be Real Tax Preparers** These criminals manipulate your return to jack up the refund, then steal it. They may even try to charge fees for their so-called "services."

What You Can Do Ask those you trust to recommend tax preparers, or search the IRS's Federal Tax Return Preparer directory (irs.treasury.gov/rpo). Before you hire anyone, ask for referrals and check them carefully.

Offers That Are Too Good to Be True

- **The Tax Shelter Promise** Some fraudsters tempt you with this lie: Invest your money with them, and you won't pay taxes on the money–or the earnings.

What You Can Do Don't invest with a company you have never heard of, or in any product you don't understand. If in doubt, get an independent opinion on any investments you're considering.

- **"Opportunities" Offshore** Bad guys might appeal to your vanity, suggesting that you've got enough money to merit moving some of it offshore to protect it from the IRS. Fall for it, and you may never see that money again.

What You Can Do Report potential scammers to the Federal Trade Commission. You can find them at ftc.gov/complaint.

PRO TIP

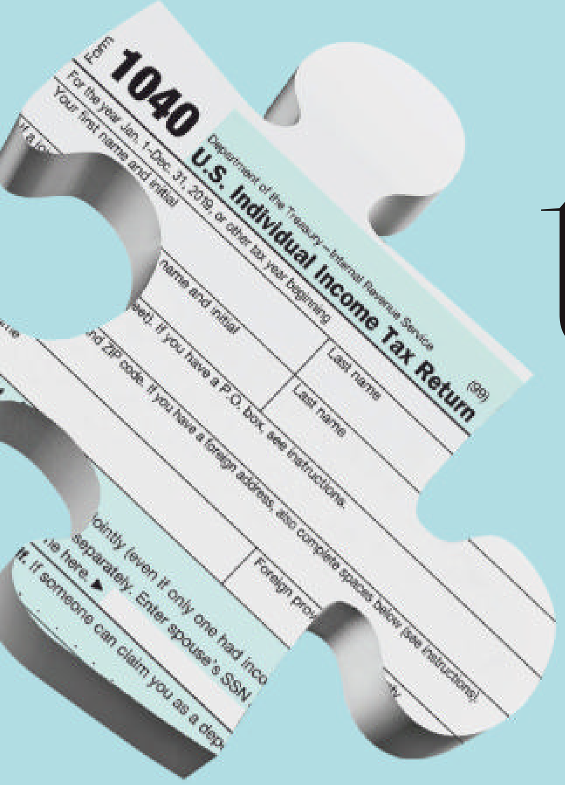
The IRS reports that thousands of people have lost millions of dollars and personal information to tax scams in recent years.

SECTION

05

Taxes in the USA

Your guide to how tax rules vary from state to state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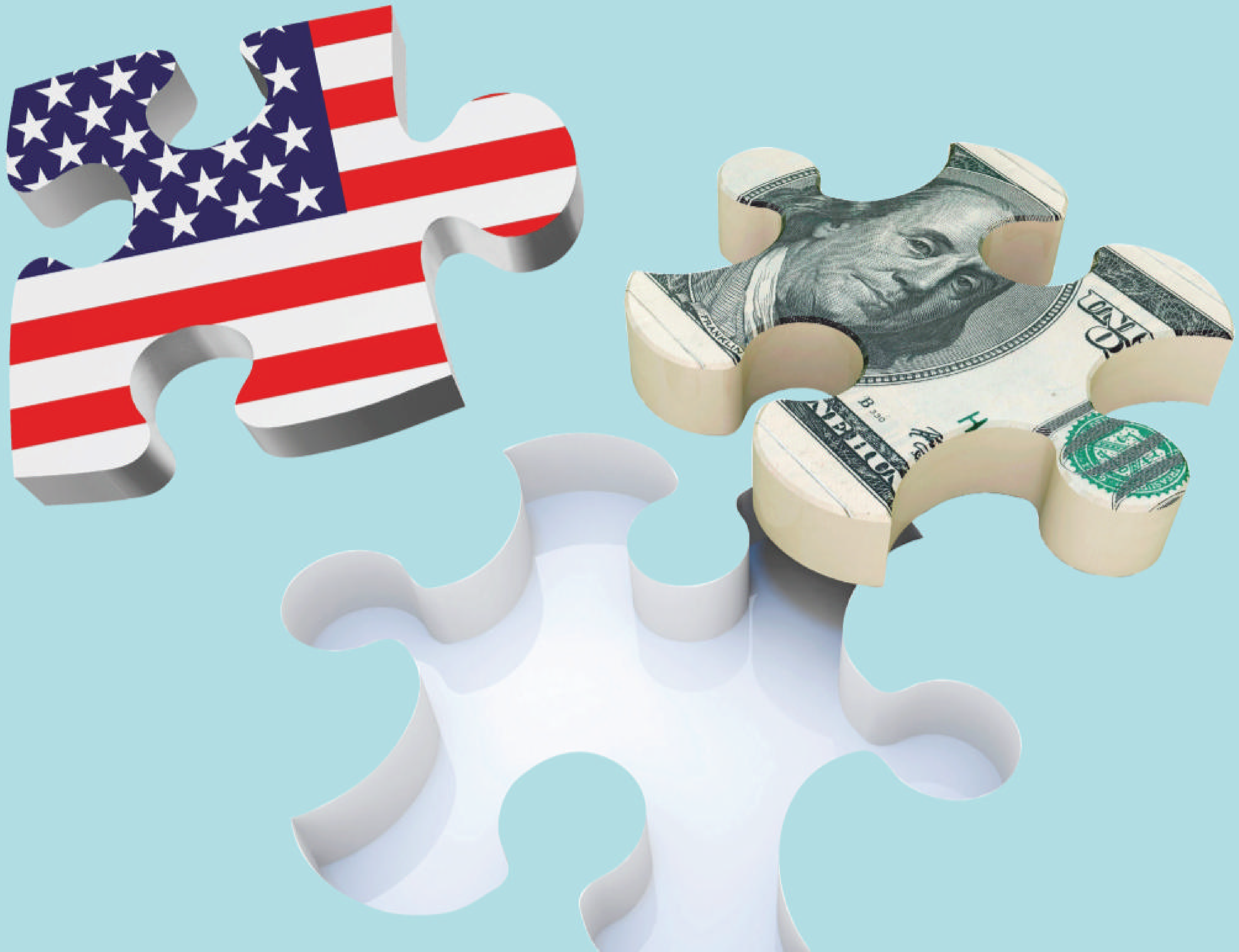
U.S. Individual Income Tax Return



The State of State Taxes

Federal taxes aren't the whole story. State governments are also empowered to levy taxes. Many states charge income and estate tax on top of what you owe to the federal government. They may also impose sales tax, property tax and taxes on fuel and services.

The types of taxes and rates vary from state to state. Many people–particularly retirees–factor a state's tax system into their relocation plans. Here's a look at why states levy taxes and how different tax laws may be appealing to different people.

Understanding State Taxes

States use revenue from state taxes to cover costs that are not paid for by the federal government. The federal government uses the taxes it collects to pay for defense, infrastructure, debt repayment and health care through Medicare and Medicaid. States cover other local costs. For example, the largest costs to a state are typically education and health care. States also use tax revenue to pay for local infrastructure spending, including roads and bridges. In addition, state taxes pay for state employees, such as law enforcement personnel.

Each state sets its own tax rates, which will affect people differently depending on their financial situations. For example, retirees flock to Florida for the good weather and sandy beaches–as well as the low tax rates. California, also famous for its good weather, has high estate and income tax rates, which might give retirees pause before deciding to relocate there.

Also, taxpayers in various stages of their life may have different priorities. For example, a professional couple with young children might be willing to accept relatively high taxes, if those taxes support a good education system.

Here's a comparison of the states with the highest and lowest income tax rates and a look at how these and other tax rates might affect the taxpayers who live there:

Lowest-Taxed States

- **Alaska** Alaska is one of the easiest states on its taxpayers' wallets: It has no income, sales or estate tax. Instead, the state gathers much of its revenue by taxing its natural resources, such as minerals, coal, oil and natural gas. In fact, Alaska residents receive annual payouts from the state's oil profits. However, Alaska does have a max local sales tax rate of 7.5% and an average combined state and local sales tax rate of 1.76%.

- **Florida** With warm weather year-round, Florida is a natural destination for many retirees. In addition to sunshine, the state has no estate tax or income tax, which means retirees' Social Security and other income remains untouched. The state gathers much of its revenue from a 6% sales tax. (In some places, you'll pay 7.5%.)

PRO TIP

State tax filing deadlines generally follow the IRS dates, but some states set their own deadlines, often later than the IRS date.

Taxes can vary significantly from state to state.

- **Nevada** Another popular destination for retirees, Nevada has no income tax or estate tax. The state draws most of its income from sales, excise and property taxes, as well as taxes generated by its gaming industry.

- **New Hampshire** New Hampshire's state motto, "Live Free or Die," also extends to much of its tax law. There is no sales tax, estate tax or income tax. The Granite State compensates for this lack of revenue with a 5% flat tax on interest and dividends, and property taxes that are among the highest in the country.

- **Pennsylvania** The Keystone State levies a flat 3.07% income tax, the lowest rate among states with a flat income tax. The state also imposes a 6% sales tax. (In some places, you'll pay 8%.)

- **South Dakota** South Dakota has no income tax, a rare phenomenon among Midwestern states. The state gathers most of its income from its 4.5% sales tax and other excise taxes. But be warned, the sales tax can get as high as 9%, depending on local rates.

- **Tennessee** The state doesn't have a personal income tax. Tennessee recently became even more desirable for retirees, having abolished its estate and inheritance taxes. Still, the state sales tax rate is 7%, and local rates push it as high as 9.75% in some places.

- **Texas** Whether you're interested in big skies or big cities, Texas has a lot to offer. Retirees in particular will appreciate zero income tax and estate tax. However, Texas has relatively high and confusing property taxes, with an effective real estate tax rate of 1.8%. Even so, the state's excise taxes and 6.25% sales tax, which in some locales goes as high as 8.25%, provide most of its income.

- **Washington** The Evergreen State charges no income tax. However, the state does have a 6.5% sales tax–local rates can push it as high as 10.5%–and a progressive estate tax that caps at 20%.

- **Wyoming** Another mineral-rich state, Wyoming gets much of its income from taxing its natural resources. This strategy allows the state to avoid collecting income tax and estate tax and to keep its sales tax at a relatively low 4%. And even with local rates figured in, you won't pay more than 6% on most goods.

Highest-Taxed States

- **California** There are lots of reasons to live in the Golden State: natural beauty, good weather, cosmopolitan cities. However, these benefits come at a price. California levies a progressive income tax of 1 to 13.3%, a 7.25% state sales tax and an effective property tax rate of 0.73%.

- **District of Columbia** Residents of the nation's capital are subject to a number of taxes, including 4% to 10.75% of their income. Sales tax is 6%, and property owners are subject to real estate taxes. The District collects an estate tax of up to 16%.

- **Hawaii** Tropical weather, palm trees, rain forests and sparkling beaches make Hawaii a dream location for many Americans. Yet the price of paradise is steep. In addition to having one of highest costs of living of all the states, islanders pay 1.4% to 11% in income tax, up to 20% in estate taxes and 4% to 4.5% in sales tax. The state also gathers revenue from tourism-related businesses. For example, the hotel tax paid by island visitors is 10.25%.

- **Iowa** Iowa boasts a low cost of living, good public education and a fast-growing capital, Des Moines.

The state also has some of the highest taxes in the Midwest. Sales tax is 6% to 7%, income tax is 0.33% to 8.53%, and there is an inheritance tax of 5% to 15% for beneficiaries. However, the state's inheritance tax will be phased out by 2025.

- **Minnesota** Minnesota is the land of 10,000 lakes, but this upper Midwestern state also offers low unemployment and a thriving arts scene in the Twin Cities, where nearly 60% of its residents reside. It levies progressive income and estate taxes of 5.35% to 9.85% and 13% to 16%, respectively, while the sales tax is 6.875% to 8.875%.

- **New Jersey** New Jersey offers thriving small towns, the famous Jersey Shore and the farms that give the Garden State its nickname. The progressive income tax ranges from 1.4% to 10.75%, sales tax is 6.625%, and municipalities can push it as high as 9.938%. The state recently phased out its estate tax, but levies the highest property taxes in the nation. The average effective property tax rate is 2.21%.

- **New York** The Empire State boasts New York City, the arts and business capital of America, while also bordering two Great Lakes. Residents of the state pay a progressive income tax of 4% to 10.9%, an estate tax of 3.06% to 16% and a 4% to 8.875% sales tax. And that's not all: New Yorkers also pay property taxes of 1.38%.

- **Oregon** Oregon offers everything, from the great outdoors to a cup of single-origin coffee. Like nearby California, the state has a steep progressive income tax of 4.75% to 9.9%. It also has a progressive estate tax of up to 16%, but lacks a sales tax, unlike its neighbor Washington.

- **Vermont** Plentiful outdoor activities, a strong education system, low crime and a relatively small population are among the benefits of living in Vermont. The state levies a progressive income tax ranging from 3.35% to 8.75%. Taxpayers will pay an estate tax of up to 16% and sales tax of 6% to 7%.

- **Wisconsin** Tucked along the shores of Lake Michigan and Lake Superior, Wisconsin offers livable cities, a low cost of living and lots of pride when it comes to all things dairy-related. State residents will pay an income tax of between 3.54% and 7.65%. In addition, Wisconsin also levies a sales tax of 5% to 6.75%.

GETTING A HANDLE ON MUNICIPAL TAXES

Just like the federal government and the states collect taxes, municipalities also levy taxes. Whether a small town in rural Georgia or a big city like Chicago or San Francisco, municipalities collect taxes to pay for local expenses. They may pay for infrastructure like city streets, subways and water-treatment facilities; services like snow removal; and salaries for city government officials and local law enforcement. They may even use taxes to fund education. Here's a primer on how local taxes work.

Taxes Vary From City to City

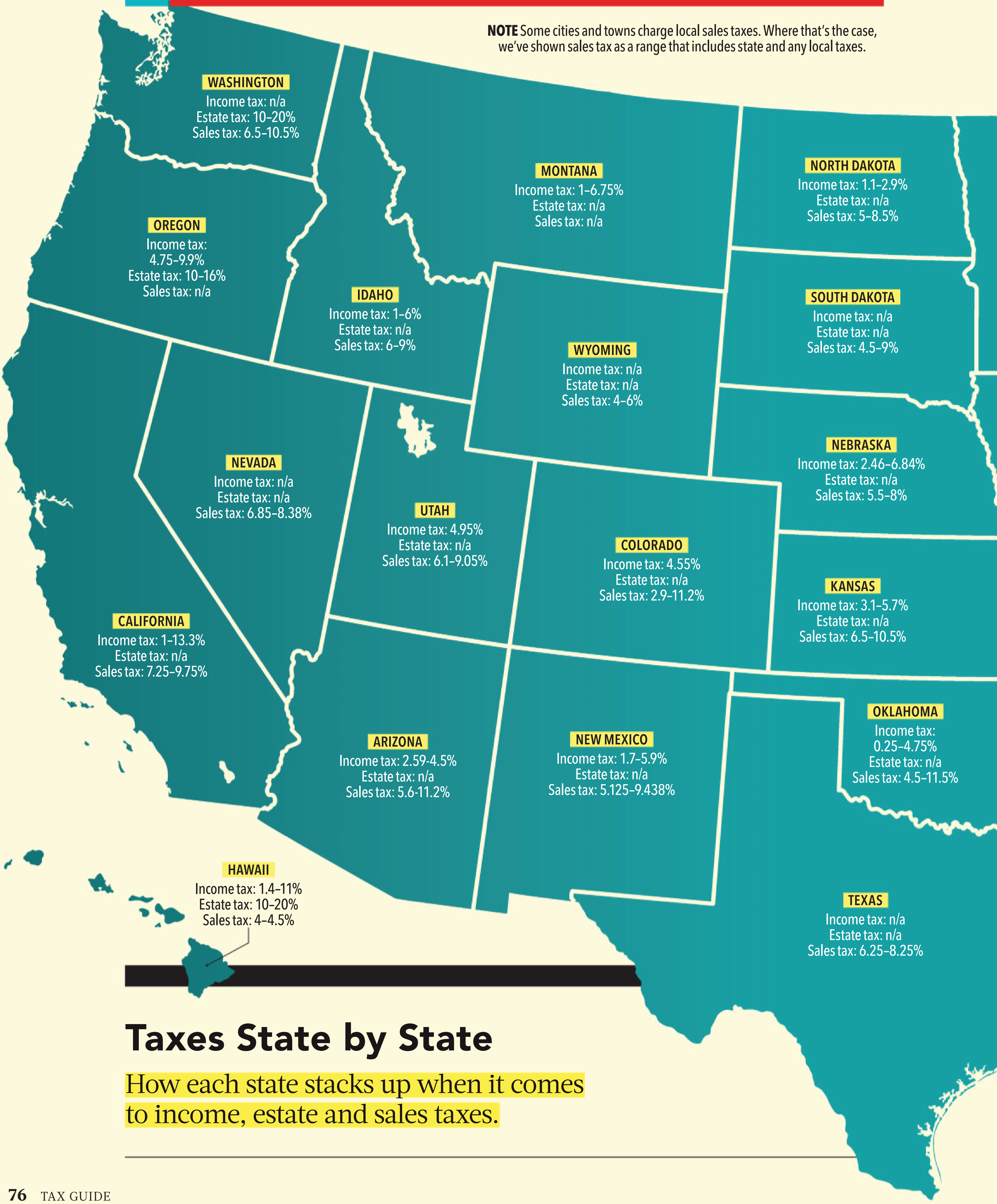
Each town or city sets its own tax rates. There is some overlap between the types of taxes that municipalities collect and those collected by states and the federal government. For example, New York City has an income tax, which the state and federal government collect, too. The city and New York State also collect a property tax.

Municipal income taxes are relatively rare, so many towns and cities instead rely on local property taxes. These taxes are based on the assessed value of the real estate you own. The city will periodically send an assessor to review and set a current fair market value for your property. The city typically taxes real property, which usually includes land, buildings and immovable improvements that increase real estate value. The tax you owe is typically determined by multiplying the assessed value of your property by your local tax rate.

The Logistics of Paying Municipal Taxes

Your municipal tax bills—if you have any—may be sent to you directly from the town or city you live in. In some cases, local taxes may be included on your state bill.

05 **STATE TAX MAP** 01 | 02 | 03 | 04 | 05

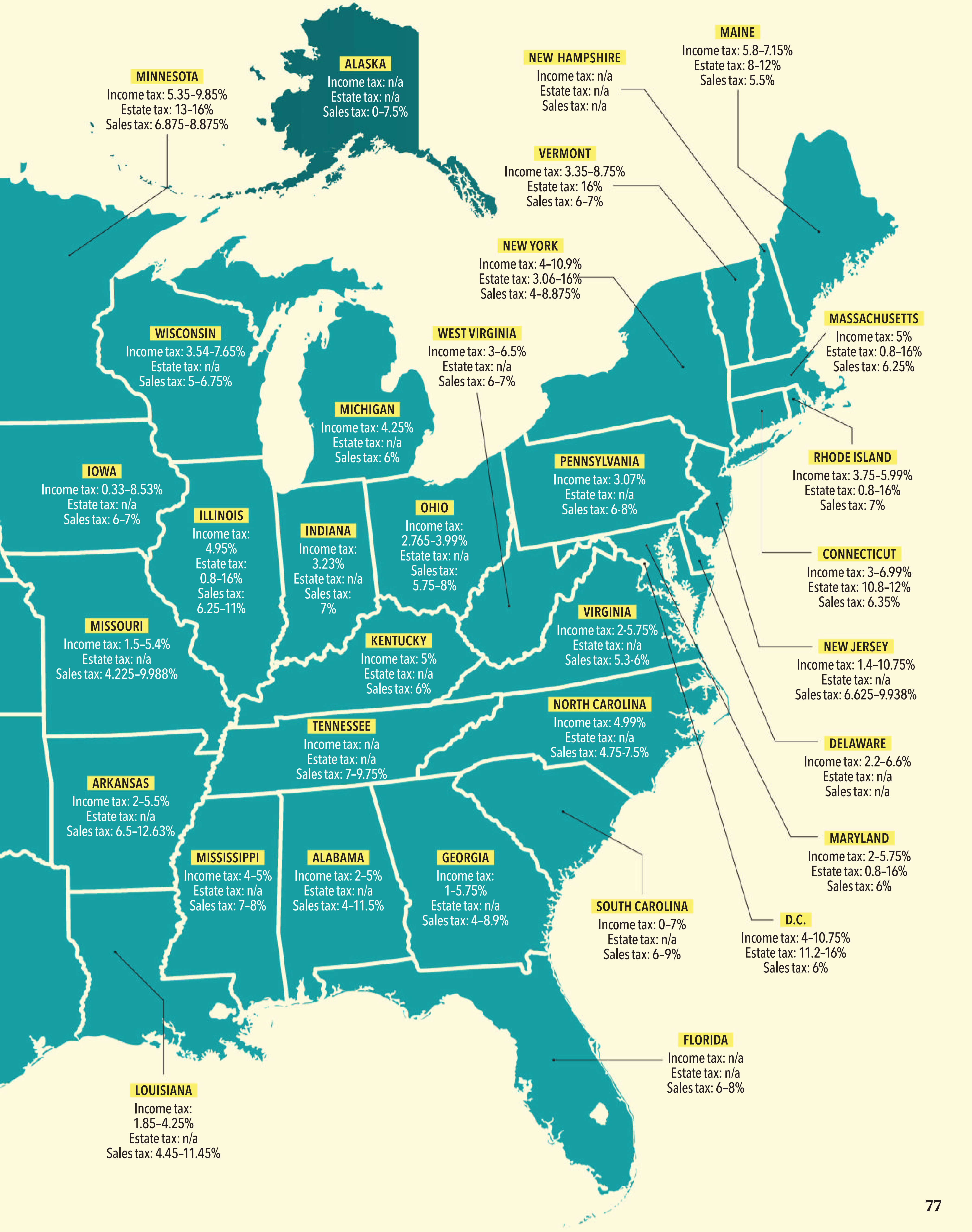


NOTE Some cities and towns charge local sales taxes. Where that's the case, we've shown sales tax as a range that includes state and any local taxes.

WASHINGTON
Income tax: n/a
Estate tax: 10–20%
Sales tax: 6.5–10.5%
OREGON
Income tax: 4.75–9.9%
Estate tax: 10–16%
Sales tax: n/a
IDAHO
Income tax: 1–6%
Estate tax: n/a
Sales tax: 6–9%
MONTANA
Income tax: 1–6.75%
Estate tax: n/a
Sales tax: n/a
NORTH DAKOTA
Income tax: 1.1–2.9%
Estate tax: n/a
Sales tax: 5–8.5%
SOUTH DAKOTA
Income tax: n/a
Estate tax: n/a
Sales tax: 4.5–9%
WYOMING
Income tax: n/a
Estate tax: n/a
Sales tax: 4–6%
NEVADA
Income tax: n/a
Estate tax: n/a
Sales tax: 6.85–8.38%
UTAH
Income tax: 4.95%
Estate tax: n/a
Sales tax: 6.1–9.05%
NEBRASKA
Income tax: 2.46–6.84%
Estate tax: n/a
Sales tax: 5.5–8%
COLORADO
Income tax: 4.55%
Estate tax: n/a
Sales tax: 2.9–11.2%
KANSAS
Income tax: 3.1–5.7%
Estate tax: n/a
Sales tax: 6.5–10.5%
CALIFORNIA
Income tax: 1–13.3%
Estate tax: n/a
Sales tax: 7.25–9.75%
OKLAHOMA
Income tax: 0.25–4.75%
Estate tax: n/a
Sales tax: 4.5–11.5%
ARIZONA
Income tax: 2.59-4.5%
Estate tax: n/a
Sales tax: 5.6-11.2%
NEW MEXICO
Income tax: 1.7–5.9%
Estate tax: n/a
Sales tax: 5.125–9.438%
HAWAII
Income tax: 1.4–11%
Estate tax: 10–20%
Sales tax: 4–4.5%
TEXAS
Income tax: n/a
Estate tax: n/a
Sales tax: 6.25–8.25%

Taxes State by State

How each state stacks up when it comes to income, estate and sales taxes.



MINNESOTA
Income tax: 5.35–9.85%
Estate tax: 13–16%
Sales tax: 6.875–8.875%

ALASKA
Income tax: n/a
Estate tax: n/a
Sales tax: 0–7.5%

NEW HAMPSHIRE
Income tax: n/a
Estate tax: n/a
Sales tax: n/a

MAINE
Income tax: 5.8–7.15%
Estate tax: 8–12%
Sales tax: 5.5%

VERMONT
Income tax: 3.35–8.75%
Estate tax: 16%
Sales tax: 6–7%

NEW YORK
Income tax: 4–10.9%
Estate tax: 3.06–16%
Sales tax: 4–8.875%

MASSACHUSETTS
Income tax: 5%
Estate tax: 0.8–16%
Sales tax: 6.25%

WISCONSIN
Income tax: 3.54–7.65%
Estate tax: n/a
Sales tax: 5–6.75%

WEST VIRGINIA
Income tax: 3–6.5%
Estate tax: n/a
Sales tax: 6–7%

MICHIGAN
Income tax: 4.25%
Estate tax: n/a
Sales tax: 6%

PENNSYLVANIA
Income tax: 3.07%
Estate tax: n/a
Sales tax: 6-8%

RHODE ISLAND
Income tax: 3.75–5.99%
Estate tax: 0.8–16%
Sales tax: 7%

IOWA
Income tax: 0.33–8.53%
Estate tax: n/a
Sales tax: 6–7%

ILLINOIS
Income tax:
4.95%
Estate tax:
0.8–16%
Sales tax:
6.25–11%

INDIANA
Income tax:
3.23%
Estate tax: n/a
Sales tax:
7%

OHIO
Income tax:
2.765–3.99%
Estate tax: n/a
Sales tax:
5.75–8%

CONNECTICUT
Income tax: 3–6.99%
Estate tax: 10.8–12%
Sales tax: 6.35%

VIRGINIA
Income tax: 2-5.75%
Estate tax: n/a
Sales tax: 5.3-6%

MISSOURI
Income tax: 1.5–5.4%
Estate tax: n/a
Sales tax: 4.225–9.988%

KENTUCKY
Income tax: 5%
Estate tax: n/a
Sales tax: 6%

NEW JERSEY
Income tax: 1.4–10.75%
Estate tax: n/a
Sales tax: 6.625–9.938%

NORTH CAROLINA
Income tax: 4.99%
Estate tax: n/a
Sales tax: 4.75-7.5%

TENNESSEE
Income tax: n/a
Estate tax: n/a
Sales tax: 7–9.75%

DELAWARE
Income tax: 2.2–6.6%
Estate tax: n/a
Sales tax: n/a

ARKANSAS
Income tax: 2–5.5%
Estate tax: n/a
Sales tax: 6.5–12.63%

MARYLAND
Income tax: 2–5.75%
Estate tax: 0.8–16%
Sales tax: 6%

MISSISSIPPI
Income tax: 4–5%
Estate tax: n/a
Sales tax: 7–8%

ALABAMA
Income tax: 2–5%
Estate tax: n/a
Sales tax: 4–11.5%

GEORGIA
Income tax:
1–5.75%
Estate tax: n/a
Sales tax: 4–8.9%

SOUTH CAROLINA
Income tax: 0–7%
Estate tax: n/a
Sales tax: 6–9%

D.C.
Income tax: 4–10.75%
Estate tax: 11.2–16%
Sales tax: 6%

FLORIDA
Income tax: n/a
Estate tax: n/a
Sales tax: 6–8%

LOUISIANA
Income tax:
1.85–4.25%
Estate tax: n/a
Sales tax: 4.45–11.45%

How to Minimize Taxes if You Live in a High-Tax State

Deductions on state and local income taxes are capped at $10,000 for both single and married filers, but if you live in a high-tax state, you still have options for easing your tax burden.

Residents of high-tax states–such as California, New York, New Jersey, Maryland, Connecticut and Oregon–must limit their state and local income tax deductions to $10,000. That's typically not enough to offset the extra money they owe in state and local taxes each year compared to those who live in other states. Of course, one option for taxpayers in high-tax states is to move to a lower-tax state, such as Nevada, Texas or Florida. However, most people aren't willing to uproot their lives just to save money on taxes.

Fortunately, there are other ways to reduce your taxes if you live in a high-tax state. Consider the following tactics:

Save More in Retirement Accounts

Retirement accounts like IRAs and 401(k)s allow you to tuck tax-deferred income away as long as you continue working. The annual 401(k) contribution limit for 2022 is $20,500, and the annual IRA contribution is $6,000 (and you can make additional catch-up contributions if you're 50 or older). If you live in a high-tax state, consider putting more money in these accounts to save on federal income taxes. When you retire, you might even move to a state with lower income taxes, reducing the amount you owe when you start taking payouts from traditional IRAs and 401(k)s. Keep in mind that Roth accounts are not tax-deferred and cannot be used to minimize the state taxes you're paying today.

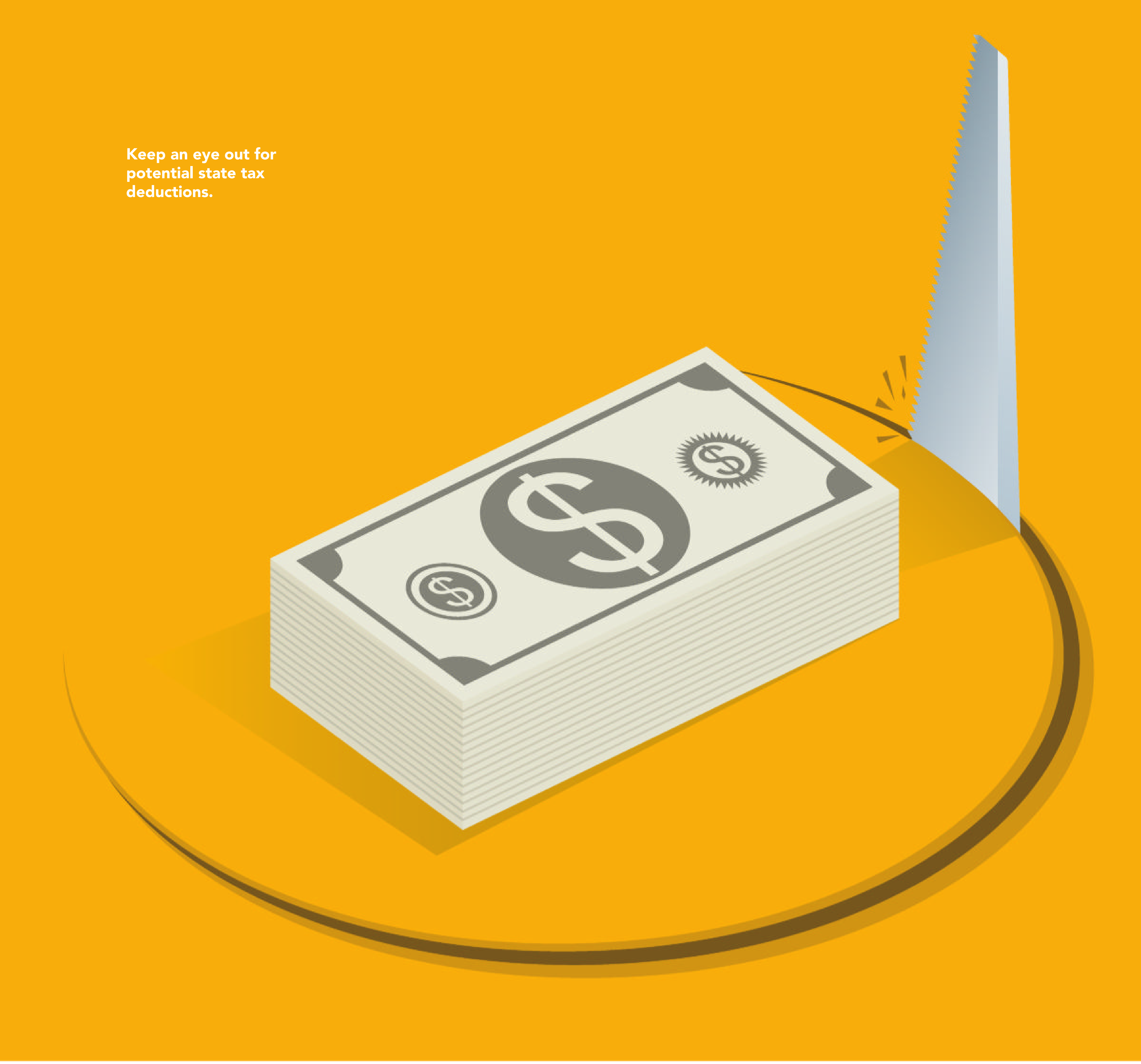
Take Advantage of State Deductions

Most states offer a number of deductions and credits for taxpayers. The type and amount of these deductions differ from state to state, so be sure to check your state's tax regulations to see what's available to you. Here are some of the common deductions:

- **Job-Related Deductions** Self-employed workers and business owners should consider itemizing their tax returns to take advantage of the array of deductions available. These include office expenses, supplies, travel expenses and insurance. Even workers who are not self-employed may be eligible for certain deductions, such as work-related travel and clothing expenses, and legal and licensing fees.
- **529 Contributions** A 529 account is used to save money for secondary education. Some states allow you to deduct contributions to a 529 from your taxable income.

PRO TIP

Live in a high-tax state? Consider upping contributions to your retirement account to help lower your taxable income.



Keep an eye out for potential state tax deductions.

- **Caregiving Expenses** If you pay the caregiving expenses of a family member or friend, you may be able to deduct those expenses, as long as the person you're taking care of has an income that doesn't exceed certain limits. The deductibility and the income limits can vary widely from state to state.

Invest in Tax-Favored Bonds

The interest paid out by some bonds is free from state and local income taxes. Municipal bonds are typically free from income taxes if you live in the same municipality the bonds are issued in. Federal bonds are also generally exempt from state taxes. Some states, like California and New York, offer tax-favored bond mutual funds, whose interest is free from all income taxes.

The current tax code doesn't do any favors to people who live in high-tax states, but you're not necessarily stuck. Before you pack your bags in search of cheaper pastures, consider using some of the strategies above to ease your state tax burden.

PRO TIP

If you provide care for a family member or friend with limited income, you may be able to deduct care-related expenses.

Top States for a Tax-Friendly Retirement

There are lots of factors to weigh when choosing where to spend your retirement–climate, proximity to family, access to quality medical care. And if you're looking to make the most of your retirement income, you'll want to add taxes to the list. The state you live in can have a big effect on your tax burden. Here are seven good choices for stretching those retirement dollars.

Florida boasts great weather and no state income taxes.

Florida

With its plentiful beaches and balmy weather, Florida is a popular hub for retirees. But the benefits extend beyond the abundant sunshine: Florida has no state income tax, meaning residents don't pay state tax on Social Security benefits or other retirement income. Florida also has no inheritance or estate tax, and offers a generous homestead exemption to offset property taxes for qualifying seniors.

Louisiana

While Louisiana residents pay state income taxes, income from Social Security and military, civil, local and state government pensions is exempt. Residents over age 65 may also be able to exclude up to $6,000 of retirement income from their taxable income. Louisiana's property tax rates are among the lowest in the U.S., making the state appealing–especially for fans of Cajun and Creole food, music and culture.

PRO TIP

As in many states, the cost of living varies across Florida. The most expensive towns tend to be those located on the coast.

Nevada

With no income, estate or inheritance taxes, Nevada is yet another popular retiree destination. Wealthy retirees planning to pass wealth to their heirs may also appreciate the state's generous asset-preservation laws. For retirees who are more interested in the outdoors than in slot machines, check out Reno, known for its 300 days of sunshine per year, proximity to the Sierra Nevada mountains, and the world's largest free hot-air balloon festival.

New Hampshire

Retirees looking to enjoy the best of all four seasons should consider this New England state. New Hampshire only taxes income from dividends and interest, and offers a $1,200 exemption for residents 65 and older. It's also one of a handful of states that doesn't levy a sales tax, and it has one of the lowest crime rates nationwide.

Pennsylvania

Pennsylvania doesn't tax Social Security or most income from pensions, and the cost of living tends to be lower than in nearby New Jersey or New York. However, the Keystone State generally does levy a state inheritance tax on assets passed to heirs other than a spouse. Retirees might look into Bethlehem, a former steel town that's transformed its mill into an arts center. Bethlehem also earns praise for its walkability and affordable housing.

Wyoming offers low property and sales tax and no state income tax.

South Dakota

South Dakota has no individual income tax, so retirees won't have to dish out taxes on income they receive from Social Security, pensions or retirement plans. The state also has no inheritance tax and a low sales tax of 4.5%. The low cost of living and highly rated health care make South Dakota among the most desired retirement destinations. A favorite location among retirees is Rapid City, located near the Mount Rushmore National Memorial and boasting some of the area's best medical facilities.

Wyoming

With its low crime rates, low property taxes, a low sales tax of 4% and no state income, inheritance or estate taxes, Wyoming is an affordable destination to retire in—so long as the brisk winters don't scare you off. For retirees seeking culture, check out Casper (with a sales tax of 5%), Wyoming's second-largest city, or Laramie (with a sales tax of 6%), home to the University of Wyoming.

New for 2022 Taxes

In response to the coronavirus pandemic, Congress passed the federal CARES Act,which introduced changes for both the 2019 and 2020 tax years. Some of these changes were extended to 2021, but take note, all of them have expired for tax year 2022.

Here are some of the most substantive tax changes that will affect individual taxpayers for the 2022 tax year:

■ **Taking an Early Withdrawal**
The CARES Act had allowed people younger than 59½ to withdraw up to $100,000 from their IRA or 401(k) account without paying the usual 10% additional tax penalty for early withdrawal. But the 10% penalty is back for 2022.

PRO TIP

You have until April 18, 2023, to make a 2022 contribution to both traditional and Roth IRAs.

■ **Required Minimum Distributions (RMDs)** RMDs for account holders age 72 or older were suspended for tax year 2020, but these requirements resumed in 2021 and are back for 2022. However, the IRS did update its calculation for RMDs to account for longer life expectancy.

■ **Pumping Up Your 401(k)**
Contribution limits for employer-sponsored plans are still in place for 2022, but the amount you can contribute has increased. If you participate in an employer-sponsored plan–such as a 401(k) or 403(b)–you can make $20,500 in pretax contributions. The "catch-up" provision was raised to allow people 50 and older to contribute an additional $6,500 annually to their 401(k), meaning older workers' pretax contributions can total up to $27,000.

■ **Traditional and Roth IRA Contribution Limits**
The maximum IRA contribution in 2022 is holding steady at $6,000. Catch-up contribution limits remain the same, as well: $1,000 for those who are 50 and older. That means those 50 or older can save up to $7,000 per year.

■ **Other Retirement Accounts** The contribution limits on SEP IRAs and Solo 401(k)s jumped from $58,000 in 2021 to $61,000 in 2022. And the contribution limit for SIMPLE accounts also increased from $13,500 in 2021 to $14,000 in 2022. Catch-up contributions for SIMPLE accounts remain the same at $3,000.

■ **Traditional and Roth IRA Income Limits**
Contributions to a traditional IRA can be entirely tax-deductible if you meet certain income requirements. Those income limits received a small boost for 2022. (If you don't have an employer-sponsored retirement plan, your contributions are fully tax-deductible.)

In 2022, you must have an adjusted gross income (AGI) of $68,000 or less (assuming you are single) to take a full deduction on your contribution

New tax rules mean higher retirement contribution limits in 2022.

to a traditional IRA. If your income is between $68,000 and $78,000, you can take a partial deduction for that contribution, but if your AGI is any higher, you're ineligible to take a deduction.

Couples filing jointly can deduct their full contribution to a traditional IRA as long as their AGI is $109,000 or less. They can take a partial deduction if their income is between $109,000 and $129,000.

The income limits for Roth IRA contributions also increased in 2022. (Note that Roth contributions are not tax-deductible, although your withdrawals in retirement will be tax-free.) Single filers with an AGI of $129,000 or less can contribute the maximum; contributions are phased out, however, for single filers with an AGI of $129,000 to $144,000. Married couples filing jointly who have an AGI of up to $204,000 can make the full contribution; contributions are phased out for couples with an AGI of $204,000 to $214,000.

Medical Expenses

In order to deduct medical expenses in 2022, those expenses have to exceed 7.5% of an individual's AGI. This reverses a change made in 2019 that had raised the threshold to 10% of an individual's AGI.

SECTION

06

Next Year

Things to keep in mind
for the 2023 tax year

Update Your W-4 After a Life Change

Life-altering events can also change your tax liability. While you may have other things on your mind after marriage or the birth of a child, a quick check of your W-4 can help you avoid an unwelcome surprise when you calculate your taxes.

Your W-4 form tells your employer how much money to withhold from your paycheck each pay period. Ideally, that amount will be about the same as what you actually owe in taxes. Pay too little, and you'll owe the government money at tax time. Pay too much, and you'll get a refund check at tax time. That option sounds good until you consider that you've loaned your money interest-free to the IRS.

If you fill out your W-4 properly, your withholding should remain close to what you owe in taxes–unless something happens during the year that changes your tax situation. Marriages, divorces, births, deaths and changes of employment status all warrant another look at your W-4, because they typically change the amount of tax you owe.

How to Make the Calculation

Your employer determines how much to withhold based on your marital status and how many allowances you claim on your W-4. The more allowances you claim, the less money your employer withholds from your paycheck. You can also provide a specific additional amount for your employer to withhold from each paycheck to get the yearly amount closer to your actual tax liability.

Revisiting your W-4 form after a major life event helps you ensure you've calculated your withholding properly. The IRS offers a worksheet with the W-4 form that walks you through the steps to fill out the form accurately. The IRS also has a free withholding calculator on its website at irs.gov/individuals/irs-withholding-calculator.

Here are three common scenarios that might require changes:

- **Marriage Status** Married couples who file jointly typically have lower tax rates and more generous deductions than single taxpayers do. If you get married or divorced, you'll want to review your allowances to make sure they account for any tax consequences of changing your filing status from single to married or vice versa.
- **Children** A new child in your family means a new dependent on your tax return, which means you'll probably want to add another allowance on your W-4. You should also consider potential benefits from other related tax credits when recalculating your withholding.
- **Change in Employment Status** You will fill out a W-4 for each employer you have. When doing so, you'll need to adjust your withholding to account for anything that increases or reduces your total annual income, including a second job, income from self-employment or a period of unemployment.

PRO TIP

A tax refund is nice, but may be a sign you're withholding too much. Consider adjusting your W-4 to more closely match your tax bill.

Get Strategic About Bunching Deductions

The standard deduction has grown consistently bigger over the past few years, leading large numbers of taxpayers to abandon itemized deductions and instead opt for the standard deduction. However, it's still possible to exceed the standard deduction threshold, especially if you practice bunching your deductions.

How Bunching Works

With the 2022 standard deduction of $12,950 (or $25,900 for married couples), it's more difficult than ever to exceed the standard deduction threshold. Meanwhile, there is also a $10,000 cap on the amount that taxpayers can deduct for state and local taxes, limiting the effectiveness of this deduction on its own.

Bunching deductions offers a way to close the gap between itemized expenses and the standard deduction by consolidating deductions you would otherwise make over multiple years into a single tax year. This approach also decreases your expenses in years that you take the standard deduction, increasing the financial benefit. In essence, you are maximizing the efficiency of your deductions over time by reducing your deductible expenses in years you take the standard deduction and increasing them in years you want to itemize.

PRO TIP

If you need to lower your tax liability, consider bunching charitable donations over multiple years in one tax year.

For example, suppose a single taxpayer itemized $10,000 worth of his or her deductions in 2022, including roughly $5,000 in mortgage interest, $3,500 in state and local tax deductions and another $1,500 in charitable contributions. By bunching four years, or $6,000, worth of charitable deductions into 2022, that taxpayer is able to clear the current standard deduction by $1,550 for the current year and reduce the load of potential deductions to $8,500 in each of the next three years. Bunching preserves the tax benefit of the charitable contributions in this example.

Know Your Deductions

It's worth noting that finding enough expenses to consolidate through bunching will take some strategic planning. You need to have enough cash available to pay expenses in a lump sum during years you intend to itemize, and few expense categories offer dependable opportunities for consolidation. For the majority of taxpayers out there, itemized expenses come from four categories: state taxes, local taxes, medical expenses and charitable contributions.

Mortgage Interest and State and Local Taxes

Consolidating multiple years of mortgage interest payments can be challenging, since most

Fewer taxpayers itemize their deductions, due to the increase in the standard deduction.

Feeling generous? Charitable giving can help lower your tax burden.

PRO TIP

If your medical expenses exceed 10% of your AGI, you may be able to bunch some costs, such as a child's braces.

mortgage lenders don't allow early interest payments. Federal rules limiting state and local tax deductions to $10,000 also limit strategies for bunching property taxes. Since you can't deduct payments for taxes that haven't been assessed, you can only prepay them if you have quarterly payments that allow you to make January's payment in December. Or, you could make your December payment late so that it's grouped in with the next year's payments. But be careful with this strategy: Be sure you still come out ahead after factoring in penalties and interest.

Medical Expenses

Some big-ticket medical expenses (for example, payments to an orthodontist for a child's braces, or late-year purchases of medical supplies used over the course of a year) offer potential avenues for bunching, but those expenses have to exceed 7.5% of your adjusted gross income (AGI) to qualify.

Charitable Contributions

Charitable contributions offer an excellent opportunity for taxpayers interested in bunching their deductions. Current rules allow for deductions of cash donations to public charities under 50% of your AGI. You can also deduct up to 30% of AGI for donations in appreciated securities, a strategy that frequently offers additional tax benefits by limiting taxes on capital gains. In most cases, those options should leave a lot of room to boost your itemized deductions over the standard deduction for a given year.

Another option: You could also boost your deductions by choosing to itemize in a year you plan to make a bigger charitable contribution than you usually do–for example, by donating a used vehicle or giving more to your university's alumni fund during a special reunion year.

Taking Advantage of Donor-Advised Funds

Donor-advised funds act as a holding account for charitable contributions, making them a flexible solution for those seeking to bunch their deductions. Your charitable contribution becomes deductible from your taxes when the money goes into the fund, even if you don't direct the money from the fund to a charity right away. In other words, with a donor-advised fund, you can take a charitable deduction in any year that you donate to the fund, while making the actual contributions to charities of your choice over time.

Keep Up With Quarterly Taxes

As if handling taxes every April isn't hassle enough, many taxpayers also must make quarterly payments. The good news: Paying quarterly may save time and money down the road.

PRO TIP

If you're self-employed and expect to owe at least $1,000 in taxes, you likely should be paying quarterly estimated taxes.

Should you file estimated quarterly taxes? A good way to tell is to consider if any of your income was reported on a form other than a W-2. The W-2 is the tax form that reports your wages and the taxes your employer withheld to the IRS. If you do receive non-W-2 income, however, the IRS may expect you to file quarterly payments. Find out who should file and when.

What Are Quarterly Estimated Tax Payments?

The federal government collects money throughout the year, not just on tax day in April. A W-2 means your employer takes care of your taxes for you by withholding taxes from every paycheck and sending them in to the IRS. If the IRS doesn't get your tax payments from your employer, it will expect you to send them on a quarterly basis.

The deadline for the final quarterly payment for 2022 is Jan. 17, 2023. Quarterly payments for 2023 will be due April 18, 2023; June 15, 2023; Sept. 15, 2023; and Jan. 15, 2024. By paying a portion of your taxes each quarter, you will ultimately help to break up your tax bill into smaller installments.

Who Should Pay?

If you don't have an employer withholding tax from your income each paycheck, there is a good chance that you will need to pay quarterly estimated taxes to the IRS. This situation often applies to people who are self-employed, own a small business, or receive income from interest, dividends, rental tenants or other non-withholding sources. If you fall into one of these groups, the IRS requires you to make quarterly payments if you expect that you'll owe $1,000 or more in taxes after you subtract refundable credits and any withholding.

Why Should You Pay?

Let's face it: Paying your taxes four times a year might feel like a lot of stress and work–especially because each payment requires a careful accounting of your income and any applicable deductions. While skipping the quarterly process might sound tempting to you, making the payments is worth your trouble.

The most important reason to pay quarterly taxes is to avoid a potential penalty. If you're a taxpayer who's required to pay quarterly and you fail to do so–or you don't pay enough–the IRS may slap you with interest charges on top of what you already owe. The amount you'll owe in penalties depends on the amount of tax due and how long after the deadline you pay. For this reason, it's important to try to keep your estimated payments as accurate and timely as possible.

Paying quarterly taxes can help break up your bill into more manageable installments.

You will never owe penalties if you make payments equal to the taxes you owed last year. If you overpay, you'll get a refund after your annual tax return. If you do get a refund, consider applying it toward your estimated payment in June. However, you'll want to avoid overpaying if you can, since you probably have better uses for that money than lending it to the government interest-free.

Making quarterly payments can also relieve you of the unpleasant shock of owing an eye-popping sum in April. If you haven't prepared throughout the year, the amount due may be more than you have on hand.

Keeping up with your payments is also a good way to help you stay on top of your budget. The process of filing your estimated quarterly taxes ensures you're taking a close look at your accounts on a regular basis and helps you know what to expect for future tax payments.

How to Pay

To figure out how much you owe each quarter, you'll follow steps similar to those you take to file your annual tax return. Quarterly taxpayers should track their income, deductions, credits and paid taxes, then use IRS Form 1040-ES (Estimated Tax for Individuals) to calculate their tax payment. The amount you owe may vary from one quarter to the next if your income, deductions or credits fluctuate.

You can file your payments by mail, over the phone or online. If you pay online, you can pay directly from your bank account or use a credit or debit card.

Paying quarterly taxes may feel like a lot of paperwork at first. But your diligence will pay off when April rolls around.

PRO TIP

Keep close track of your income, deductions, credits and paid taxes to make calculating your quarterly estimated taxes easier.

Plan Your Capital Gains and Losses

Capital gains and losses are the profits and losses from the sale of investments such as stocks, bonds, mutual fund shares and certain types of real estate. Capital gains are taxed differently than other income, and the rules governing them may present opportunities to improve your overall tax situation.

With a solid understanding of how capital gains and losses are treated by the IRS, you can manage them to maximize your after-tax income.

Capital Gains

A capital gain is the profit you receive when you sell an asset for more than you paid for it. For tax purposes, capital gains are divided into two categories: short-term and long-term.

- **Short-Term Capital Gains** are profits from the sale of a capital asset you've owned one year or less. These are taxed at the same rate as your ordinary income–between 10% and 37%.

- **Long-Term Capital Gains** are profits from the sale of a capital asset you've owned for more than a year. These are generally taxed at a lower rate–either 15% or 20%. For taxpayers in the 10% and 12% tax brackets, however, long-term capital gains aren't taxed at all.

Since the short-term capital gains rate is much higher than the long-term capital gains rate, it's usually wise to hold on to appreciated assets for a year or longer.

If you're in one of the two lowest tax brackets, you may want to make sure any asset sales won't bump you up into the next tax bracket, 22%, because at that point your profit would become taxable.

PRO TIP

Short-term capital gains are taxed as ordinary income, while long-term capital gains are often taxed at a lower rate.

Capital Losses

Capital losses are incurred when you sell an investment for less than you paid for it. As with capital gains, capital losses can be short-term or long-term.

Both short- and long-term capital losses can be used to offset capital gains. You're required to start by using capital losses to offset capital gains of the same type. In other words, short-term losses first offset short-term gains, while long-term losses first offset long-term gains.

If you do that and still have a net capital loss, you can deduct the remaining loss from any kind of capital gain. For example, if one year you sold a long-term investment at a $10,000 loss and realized $5,000 in long-term gains and $5,000 in short-term gains, you could use the $10,000 to offset first the long-term and then the short-term gains.

Moreover, if you have an overall net capital loss for the year, you can deduct up to $3,000 of it

Take the time to understand the tax treatment of capital gains and losses.

against your ordinary income or interest income. Any capital loss beyond $3,000 can be carried over to the following year, or even subsequent years. In these years, you can deduct rolled-over losses against any capital gains and up to $3,000 of income.

Consider Reinvesting Your Assets

If you decide to sell assets at a loss, be strategic about which ones you sell. The best options are investments with low growth prospects, those that don't fit your strategy anymore, and investments that can be easily replaced by others with similar characteristics.

Also, consider reinvesting the proceeds of a sale in order to maintain diversification in your portfolio. Just beware of the IRS "wash-sale rule," which forbids you from buying back the same security you've just sold, or a "substantially identical" security, within 30 days of the date of your sale. If you want to stay invested in a particular industry, consider buying shares of a mutual fund or an ETF (exchange traded fund) that covers the industry of the security you just sold.

More Capital Gains and Losses Strategies

- **Intentionally Create Capital Losses** If your income is high and you don't intend to realize capital gains, you can sell investments that have decreased in value to offset up to $3,000 of ordinary or interest income. Alternatively, if you have capital losses from previous years that you've carried forward, you can avoid realizing gains and use those losses to offset ordinary or interest income, again up to $3,000.

- **Use Dividends to Rebalance** Investors who want to rebalance their portfolio frequently sell securities that are performing well and direct the profits toward underperforming assets. Alternatively, if you collect dividends from a security in a given year, consider rebalancing by putting that money into your underperforming investments. This way you avoid selling your best-performing securities and paying the capital gains tax on them.

- **Make the Most of Your Tax-Advantaged Accounts** You don't have to pay capital gains tax on sales in retirement accounts such as 401(k)s and IRAs or other tax-advantaged accounts, such as 529 college savings accounts.

The rules about capital gains and losses may seem complicated. But with a little practice, you'll get used to them–and you may save a good deal of money.

PRO TIP

Note that you're not required to pay the tax on capital gains if you sell funds in accounts such as 401(k)s, IRAs or 529 college accounts.

Save for Retirement

Retirement may feel like it's in the distant future. Near-term goals, such as saving for a new car or even a child's education, may feel more pressing, but it's critical to start saving early. For one thing, saving for retirement can qualify you for big tax breaks. And the sooner you start, the more time your money has to grow—and the better off you'll be in retirement.

The government offers many tax advantages to encourage you to pad your retirement accounts now.

- **Grow Retirement Savings Tax-Free** Investment earnings in a retirement account such as a 401(k), or a traditional or Roth IRA, are free from annual taxes. That leaves more money for you to reinvest in pursuit of additional tax-protected growth.

If you're able to max out your retirement account—or your intended annual contribution—all at once, making that contribution early in the year could be beneficial. Depositing one lump sum gives your money more time to grow throughout the year, potentially increasing your investment returns.

PRO TIP

If you're 50 or over, be sure to take advantage of catch-up contributions, which enable older workers to save more for retirement.

- **Lower Your Taxable Income Now** You can significantly reduce your income taxes by contributing to a traditional 401(k) or traditional IRA. These accounts are tax-deferred: You can subtract your contributions from income you report on your tax return, and the money will be taxed when you eventually withdraw it. For 2022, you can contribute up to $20,500 annually to a 401(k) if you're under 50 ($22,500 for 2023) and an additional $6,500 if you're 50 or older ($7,500 for 2023). The limit is $6,000 in 2022 for IRAs, ($6,500 in 2023) and an extra $1,000 if you're 50 or older.

- **Or Make Tax-Free Withdrawals Down the Road** Roth IRAs differ from traditional IRAs in that you can't deduct initial contributions from taxable income, so you won't get an immediate tax break. But a Roth IRA still grows free from annual taxes. And withdrawals made after age 59½ are completely tax-free, as long as you've held the Roth IRA for at least five years. If you expect to be in a higher tax bracket later in life, this can be a big benefit.

Cash In on Tax Credits

Contributing to retirement accounts may qualify you for the Saver's Tax Credit. Formerly called the Retirement Savings Contributions Credit, it is available to low- and moderate-income taxpayers. It equals a percentage of the qualifying taxpayer's retirement contributions, up to $2,000 per year.

While saving for retirement requires planning, the payoff is greater financial health in your future. The tax benefits available to you can help make reaching your savings goals more achievable.

Organize Records as They Hit Your Inbox

Filing taxes can be stressful. Don't increase your anxiety level by starting the process with a frantic search for your documents, or relying on guesswork to fill out your return.

Here are some of the most common types of documents and when to look out for them.

W-2s and 1099s

These typically arrive at the start of the calendar year. Some employers and financial institutions offer them digitally; you can either convert printed documents to digital versions, or print out all documents and file them in the same place.

Deductions

You may be able to deduct expenses and donations at the end of the tax year if you plan to itemize. Receipts for these expenses may arrive at any time. Look out for documents related to:

- **Charitable Donations** Collect a receipt for your donation from the charitable organization and file immediately after donating.
- **Gambling Winnings and Losses** You can deduct gambling losses up to the amount of your winnings. Keep records of gambling activity during the year.
- **Medical Expenses** Keep receipts for all health care costs as you receive them, in case you qualify for deductions at the end of the year.
- **Certain Transportation Costs** Transportation costs for volunteering, work, business or medical appointments may also be eligible for deductions.

PRO TIP

Use whatever filing system works best for you, whether it's an accordion file, a filing cabinet, a shoebox or your computer.

Quarterly Tax Information

If you're self-employed and file quarterly estimated taxes, keep a record of each payment in the form of a receipt from the IRS.

Miscellaneous Business Documents

If you're self-employed or own your own business, file all documents related to business income, expenses and taxes as you receive them.

Documents Related to Your Children

Keep documents, such as child care receipts and contributions to college savings plans, together.

Major Life Events

Major life events, such as marriage, divorce, a home purchase, a birth or a death, all have important tax implications. Keep any documents related to these events in the same place.

Receipts from Selling Stocks

Any time you cash out an investment, keep a record of it so you can file an accurate capital gains tax return.

Staying organized throughout the year may save your sanity at tax time.

If you're a teacher, you may be eligible for special deductions.

Take Advantage of Special Tax Provisions

If a change in life circumstances or a major event affected your income in 2022, you may qualify for certain tax breaks and deductions. Review the following list to see which special tax provisions you may be eligible for, then update your tax plan.

- **Life Event Adopted a Child**

If you finalize adopting a child this year, you can claim an adoption credit of up to $14,890 per child for qualified expenses like adoption fees, legal costs and travel expenses. If you adopt a child with special needs, you can claim the full adoption credit even if your qualified expenses come in under $14,890. To take the deduction, adoptive parents must fill out IRS Form 8839 to detail their qualified adoption expenses. **Do This Now** Save all records of your adoption-related expenses.

- **Life Event Affected by a Natural Disaster**

If you live in an area that has been declared a disaster zone by the federal government due to a hurricane, fire, flood or other natural disaster, you may be eligible for tax breaks and filing extensions. Generally, you can deduct losses to your home or property, as long as they weren't covered by insurance. Note that you can deduct those losses for either the current or previous tax year. **Do This Now** Save any records of losses, and consider filing an amended 2021 return via Form 1040X to claim your tax break sooner rather than later.

PRO TIP

Veterans are eligible for free tax preparation, thanks to a partnership between the IRS and the U.S. Dept. of Veterans Affairs.

- **Life Event Became a Teacher**

Teachers or other qualified employees of schools for kindergarten through 12th grade can deduct up to $250 worth of qualified expenses per year. Expenses include fees for textbooks, professional development courses, classroom supplies, computer equipment or supplementary instructional materials. **Do This Now** Keep receipts of your qualifying purchases to ensure you can use them toward this deduction.

- **Life Event Won or Lost Money Gambling**

If you're a nonprofessional gambler, you must include any winnings as part of your income when you file your federal income taxes. Winnings include cash prizes and the fair market value for prizes like cars or vacations. If you file an itemized return, you can also deduct your gambling losses, but you cannot deduct a loss amount greater than your reported winnings. **Do This Now** Keep records of all your gambling income or losses.

- **Life Event Became a Veteran**

If you finished at least 24 months of active duty this year and were not dishonorably discharged, you may be eligible for tax breaks or even a tax refund. Veterans' disability pensions and disability compensation are not subject to federal income tax. In some states, disabled veterans do not have to pay property taxes on their main residences. Spouses, children and parents of disabled veterans may be eligible for benefits, as well. **Do This Now** If you are disabled, check whether your state will allow you to deduct property taxes.

SECTION

07

Take Action Workbook

This special pullout section includes checklists, guides and references that will make life easier at tax time

What You Need to File Your Taxes

When tax season rolls around, it's time to start pulling together the information you'll need to file your return. This checklist, and those on the following pages, can help you get organized based on the income you generated during the past year and the deductions you may be able to take.

DOCUMENTS: GETTING STARTED

What You'll Need Gather these items first:

- ☐ Last year's tax return and supporting documents
- ☐ Social Security or tax ID numbers for you, your spouse and any dependents
- ☐ Your bank account and routing numbers

Income Tax Forms
How did you make money over the year?

- ☐ **W-2** If you worked as an employee
- ☐ **1099-MISC** If you worked as an independent contractor
- ☐ **1099-INT** If you earned interest from a CD or savings account
- ☐ **1099-DIV** If you earned dividends or capital gains from a taxable account
- ☐ **1099-G** If you received unemployment compensation
- ☐ **1099-R** If you received payments from a pension, retirement plan, IRA or annuity
- ☐ **1099-SSA** If you received Social Security

Deduction Documents What deductions might you take? If your tax year included the below activities, gather supporting receipts, bills and other records to maximize your deductions:

- ☐ Paid child care expenses, such as for day care or a babysitter
- ☐ Made donations to charity
- ☐ Paid for your own health insurance or other health care expenses
- ☐ Had expenses related to being self-employed (e.g., home office, advertising, desk supplies)
- ☐ Traveled or relocated for work purposes
- ☐ Contracted career services for a job search
- ☐ Made tax-deductible home improvements, such as an energy-efficiency upgrade

TAKE ACTION!

Early in 2023, tear out this page and check off each item as you gather the corresponding forms and records.

Tax Form Checklist

In January, you'll receive tax statements in the mail to account for the past year's income. Here's a cheat sheet for the most common forms, and boxes to check off as they arrive. If you have multiple employers or banks, you should get separate forms from each.

W-2

Wages and other compensation from your employer

- Employer 1
- Employer 2
- Employer 3
- Employer 4

1099-INT

Earnings from a savings, CD or other interest-bearing account

- Bank 1
- Bank 2
- Bank 3
- Bank 4

1099-DIV

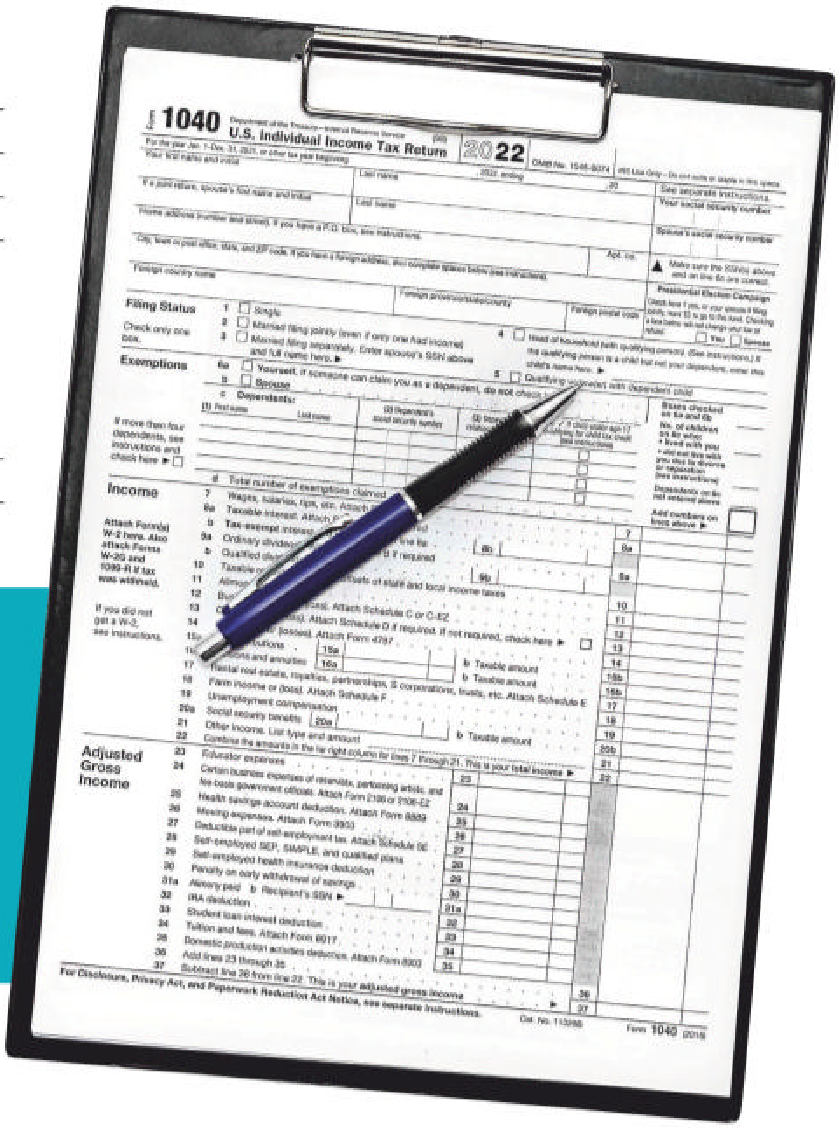
Earnings from taxable investment accounts, like brokerage accounts

- Brokerage 1
- Brokerage 2

1099-MISC

Self-employment income or other money you made outside regular work and investments

- Client 1
- Client 2
- Client 3
- Client 4
- Client 5



TAKE ACTION!

Tear out this list and keep it handy for the month of January. Fill in the name of each company you're expecting a form from, then check them off as they show up. If January comes and goes and you're still missing a form or two, contact the company in question to check on its status.

Tax Contacts

The IRS has several phone lines and many web pages you can refer to depending on your question or concern. To get faster answers and information, have your most recent tax return–and the tax return your question is about–handy.

You may also need to contact other professionals for assistance as you complete your taxes. Fill out the list at right so you'll have the information at your fingertips when you need it.

TAKE ACTION!

Fill out the important names section, then keep this information with the rest of your tax documents.

IRS Contact Information

- **Ask a question about your personal taxes**
  Call 800-829-1040
  Visit irs.gov/help/ita
- **Learn the status of your refund**
  Call 800-829-1954
  Visit irs.gov/refunds
- **Ask a question for your business**
  Call 800-829-4933
  Visit irs.gov/help/ita
- **Access assistance while overseas**
  Call 267-941-1000
  Visit irs.gov/help/help-with-tax-questions-international-taxpayers
- **Retrieve a tax form or publication**
  Call 800-829-3676
  Visit irs.gov/forms-instructions
- **Get advanced support from the IRS**
  Call 877-777-4778
  Visit irs.gov/taxpayer-advocate

Important Names & Contact Information

Your Accountant ____________________

____

____

Your Child Care Providers
Note: You'll need each provider's tax ID number in order to deduct child care expenses

____

____

Your Employer's HR Contact
For questions on your W-2 form

____

____

Your Retirement Plan Administrator
For questions on your 1099-R form

____

____

Your Health Insurance Provider
For questions on your qualified medical expenses

____

____

Your Marginal Tax Bracket Is...

The government places you in a certain tax bracket depending on your income level. To do this, the IRS goes by your adjusted gross income (AGI), which is your total income minus adjustments, deductions and exemptions.

The brackets are based on income ranges, and only the income that falls within that range is taxed at the rate listed. For tax year 2022, see table, below.

How This Works

A single filer with $30,000 in taxable income has a 12% marginal tax rate. The progressive tax system means they will pay 10% income tax on the first $10,275 they make and 12% on income up to $41,775. Taxable earnings in the next income range will be taxed at 22%.

TAKE ACTION!

Highlight the row that corresponds to your income and tax bracket. Multiply the amount of your taxable income that falls within a given range by the marginal tax rate listed in the adjacent column. Then total that column to get an estimate of your total tax liability. (Get the exact number by filling out your tax forms to completion.)

FINDING YOUR TAX BRACKET

Single Filer	**Married Filing Jointly**	**Marginal Rate**	**Tax Liability Estimate**
If your taxable income is...	If your taxable income is...	...then your tax bracket is...	Multiply the range by your tax rate to see what you owe
Up to $10,275	Up to $20,550	10%	$10,275 x 10% = $1,027.50
$10,276 to $41,775	$20,551 to $83,550	12%	
$41,776 to $89,075	$83,551 to $178,150	22%	
$89,076 to $170,050	$178,151 to $340,100	24%	
$170,051 to $215,950	$340,101 to $431,900	32%	
$215,951 to $539,900	$431,901 to $647,850	35%	
$539,901 or more	$647,851 or more	37%	
		TOTAL	

Business Expense Tracker

If you run your own business, it's easy to lose track of small expenses. But keeping a record of items like that new file cabinet or a client coffee can ensure that you report your costs accurately–and maximize your business deductions.

TAKE ACTION!

Keep this sheet with you while you go about your day. Use it to ensure you capture all the business expenses you incur at home and when you travel.

OFFICE SUPPLIES & POSTAGE

Date	Cost	Description
June 8	$18.99	Copier paper (4 reams)

BUSINESS MEALS & ENTERTAINMENT*

Date	Cost	Description
Oct. 8	$46.85	Lunch with client XYZ

*You can deduct 50% of expenses in this category, which includes both the meals you have while traveling on business and those that are business-related entertainment.

TRAVEL

Overnight lodging and transportation while you're away on business

Date	Cost	Description
Feb. 12	$62.50	Taxi to airport

Charitable Giving

This page can help you keep track of the donations you've made throughout the year. You can deduct these donations on your tax return, should you choose to itemize deductions.

CASH DONATIONS

Save supporting receipts, cancelled checks, bank or credit card statements and/or acknowledgements from the charity.

Date	Amount	Name of Cause/Charity

DONATIONS BY PAYROLL DEDUCTION

Save supporting pay stubs, W-2 forms and/or acknowledgements from the charity.

Date	Amount	Name of Cause/Charity

TAKE ACTION!

Keep this sheet in the front of your charitable giving file. Add an entry and supporting documentation any time you make a donation.

PROPERTY DONATIONS

Save supporting receipts, fair market value calculations and/or other documentation for any gifts valued at $250 or more.

Date	Amount	Description of Item(s)/Fair Market Value

Medical Cost Tracker

If health care costs take up a large part of your budget, you may be able to deduct some of them on your tax return. If you itemize your deductions, you can deduct medical costs that exceed 10% of your adjusted gross income, so be sure to keep a record of every qualifying expense.

The following items count as deductible medical expenses, if you meet the 10-percent threshold:

- ☐ Ambulance
- ☐ Contact Lenses
- ☐ Dental Exam
- ☐ Nursing Home Care
- ☐ Physical Exam
- ☐ Psychiatric Care
- ☐ Smoking-Cessation Programs
- ☐ Transportation
- ☐ X-rays

TAKE ACTION!

Tear out this sheet and keep it in a file so you can track your annual medical expenses. For a detailed list of qualified medical expenses, see IRS Publication 502, *Medical and Dental Expenses.*

MEDICAL EXPENSES

Date	Amount You Paid	Treatment/Prescription/Doctor/Facility

How Long to Keep Your Tax Papers

Wondering when you can toss out your old receipts, 1099s and other tax documents? It's important to hold on to your tax documents as long as there is a chance that the IRS might decide to audit you. The IRS generally has three years to make that choice, but under certain circumstances, it can look back even further.

Here are some guidelines to help you figure out how long to keep tax-related papers:

1 YEAR

- Pay stubs–you can shred them once you've received your W-2 and confirmed that it is accurate

TAKE ACTION!

Tear out and place this guide at the front of your tax file. Then, when you add each year's tax records to your file going forward, review and shred your old records as necessary.

3 YEARS

- All supporting records for each year's tax return
- W-2, 1098 and 1099 forms
- Charitable donation receipts, including any appraisals
- Child care and education costs, including tuition, room and board and fee information
- Medical receipts
- Contributions to tax-deferred retirement accounts (401(k), IRA)
- Volunteer timecards and mileage documentation
- Business expense receipts: office equipment and supplies, mileage, utility bills, advertising, meals
- Receipts for tax-deductible home improvements such as energy-efficiency upgrades
- Real estate tax and personal property tax documents

7 YEARS

- All supporting records for any claimed loss of worthless securities or bad-debt deduction

FOREVER

- Each year's tax return

Important Tax Dates Throughout the Year

It can be hard to keep track of each year's tax filing schedule–especially if you're self-employed or applying for an extension on your return. Take a look at these important dates and transfer them to your calendar so you can be ready for 2023.

JAN. 17, 2023

Q4 2022
Estimated Tax Payment Due

Form 1040-ES

APRIL 18, 2023

Q1 2023
Estimated Tax Payment Due

Form 1040-ES

APRIL 18, 2023

2022
Annual Tax Return or Extension Application Due

Form 1040, 1040A, 1040EZ or 4868

JUNE 15, 2023

Q2 2023
Estimated Tax Payment Due

Form 1040-ES

SEPT. 15, 2023

Q3 2023
Estimated Tax Payment Due

Form 1040-ES

OCT. 16, 2023

2023
2022 Extended Annual Tax Return Due

Form 1040, 1040A or 1040EZ

TAKE ACTION!

If your income changes during the year, recalculate your payments so you don't get hit with a large bill at the end of the year.

2023 Tax Planning

Every year, the IRS reviews certain limits and amounts in the tax code to make sure these values keep pace with inflation. Similarly, it's a good idea to update your numbers each tax year. Below, we've listed some of the key changes for 2023. Be mindful of these changes when you file your return in early 2024.

CHANGES FOR 2023

401(k) and 403(b) Contribution Limit

$22,500

(up from $20,500)

Maximum Earned Income Credit

$7,430
filing jointly with 3+ children

(up from $6,935)

Foreign Earned Income Exclusion

$120,000

(up from $112,000)

TAKE ACTION!

Identify any items that apply to your situations, then take a look at your 2022 return to see how the changes might affect you.

Standard Deduction

$13,850
for individuals

(up from $12,950)

$27,700
for married couples

(up from $25,900)

$20,800
for heads of household

(up from $19,400)

Alternative Minimum Tax Exemption

$81,300
for individuals

(up from $75,900)

$126,500
for married couples

(up from $118,100)

Income Limit for Taking the Retirement Savings Contributions Credit

$36,500
for individuals

(up from $34,000)

$73,000
for married couples

(up from $68,000)

$54,750
for heads of household

(up from $51,000)

Track Your 2023 Freelance Income

If you are self-employed or otherwise do work outside regular employment, you'll need to track income so you can pay estimated quarterly taxes. The government's quarterly tax schedule divides each calendar year into four periods, starting with January, April, June and September. Track your income along with that schedule to stay organized for quarterly tax payments.

TAKE ACTION!

Tear out this sheet and keep it in a file with your 2023 income records. Any time you receive self-employment income, record it here in the appropriate period.

2023 FREELANCE INCOME

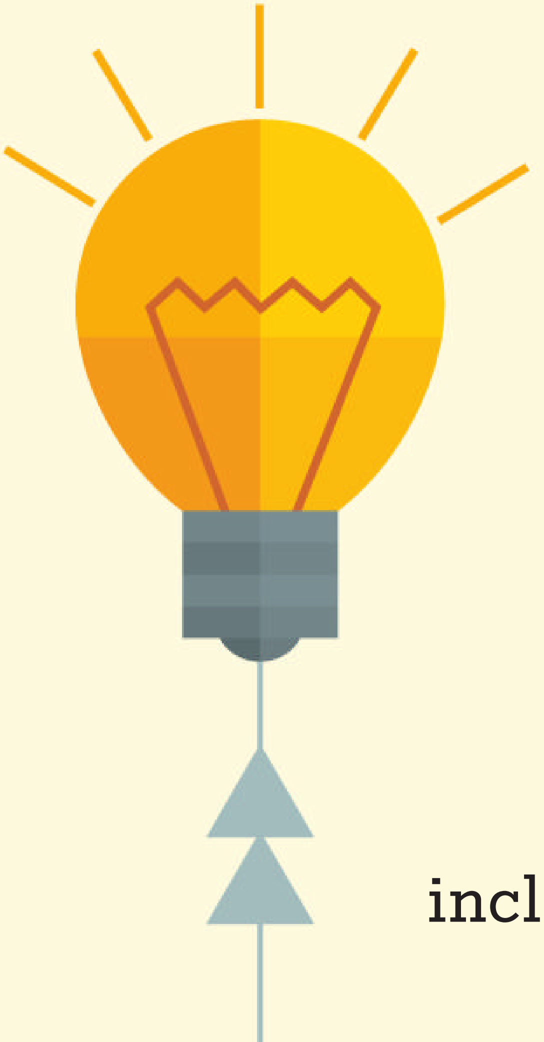
FROM Jan. 1 to March 31 (3 months) **TAX DUE** April 18, 2023

Date	$ Amount	Client/Notes

FROM April 1 to May 31 (2 months) **TAX DUE** June 15, 2023

FROM June 1 to Aug. 31 (3 months) **TAX DUE** Sept. 15, 2023

FROM Sept. 1 to Dec. 31 (4 months) **TAX DUE** Jan. 15, 2024



SECTION 08

Glossary

A guide to important tax terms,
including specific credits and deductions

- **401(k)**
An employer-sponsored retirement account that allows you to set aside a portion of your paycheck before taxes are taken out.

- **Adjustments**
Expenses that lower your total income for tax purposes.

- **After-Tax Retirement Accounts**
Retirement accounts such as a Roth IRA or Roth 401(k) that don't provide an immediate tax deduction for contributions but aren't taxed when you make withdrawals in retirement.

- **American Opportunity Tax Credit (AOTC)**
A tax credit for individuals, who are pursuing their first four years of college education, to help offset educational expenses such as tuition, room and board and textbooks.

- **Capital Gain**
Profit from the sale of capital assets such as stock, a business or a parcel of land.

- **Capital Loss**
The loss incurred when a security is sold for less than the original purchase price. Capital losses can reduce your tax liability by offsetting capital gains, and might also offset some of your earned income.

- **Certified Public Accountant (CPA)**
A professional often used for preparing taxes who has passed a certification exam and has a background in accounting and finance. He or she typically has expertise in a wide range of accounting skills.

- **Child and Dependent Care Credit**
A credit that allows you to claim up to 35% of the costs of child care or other dependent care while you are working or looking for work. Includes day care and summer day camp expenses.

- **Child Tax Credit**
A partially refundable tax credit worth $2,000 for each qualifying dependent child, stepchild or foster child under the age of 17 at the end of the tax year. The credit includes a nonrefundable tax credit of $500 for each qualifying non-child dependent.

- **Deductions**
Tax write-offs that help offset your taxable earnings and reduce your tax bill.

- **Dependent**
A child or other relative whom you can claim for either tax credits or deductions.

- **Dividend**
Distribution of a corporation's profits to its shareholders.

- **Earned Income Tax Credit (EITC)**
A refundable tax credit for working people with low to moderate income.

- **Estate Taxes**
Taxes on the assets you pass on to your beneficiaries after your death, including cash, securities, insurance, real estate and business interests. These taxes generally only apply to estates above a certain asset level.

- **Estimated Taxes**
Quarterly tax payments to the IRS made by self-employed taxpayers or others who receive income that is not subject to withholding by an employer.

- **Excise Taxes**
Similar to sales taxes, these taxes are charged when you make a purchase. Excise taxes only apply to certain goods and services, such as alcohol.

- **Exemptions**
Exemptions reduce your taxable income by an amount that the government predetermines.

- **Form 1098**
A document listing the interest paid to a lender for the tax year. Variations of the 1098 include documentation of mortgage loan interest, student loan interest, tuition statements and certain charitable donations.

- **Form 1099-DIV**
A document that details interest earned on investment income such as dividends and capital gains in a given tax year.

- **Form 1099-INT**
A document that details taxable interest earned on a savings account or certificate of deposit in a given tax year.

- **Form 1099-MISC**
A document that details non-wage earnings for independent contractors or self-employed

workers. Companies that pay non-employees more than $600 in a tax year are required to send these forms to each worker.

Form 4868
The form used by individuals filing for an extension on their tax returns.

Form 8283
The form you must fill out if you're deducting more than $500 in property you've given in charitable contributions.

Generation-Skipping Transfer Tax
A tax on estates that allows assets to be left directly to grandchildren in order to avoid an estate being taxed each time it's handed down a generation.

Head of Household
A filing status that can make you eligible for a lower tax rate and higher deductions than those available to a single filer. To qualify, you must be unmarried by the end of the previous year and your children must spend at least 50% of their time in your care.

Health Savings Account (HSA)
A tax-advantaged account for setting aside money for medical expenses. HSAs are only allowed in conjunction with a high-deductible health insurance policy.

Home Office Deduction
The portion of expenses, such as mortgage interest, property tax, utilities and home repairs, that the IRS allows you to deduct for a qualifying home office.

Inheritance Tax
A tax that is imposed on residents who receive a bequest. Inheritance taxes are payable by the beneficiary—this differs from the estate tax, which is paid by the estate.

Itemized Deduction
An eligible expense that an individual taxpayer can claim on a federal tax return in order to decrease taxable income; it can be used instead of the standard deduction.

Lifetime Learning Credit
A tax credit worth up to $2,000 per tax return for the costs of tuition and education expenses.

Long-Term Capital Gains
Profits from a capital asset held for more than a year. Long-term capital gains are taxed at a maximum of 20%.

Marginal Tax Rate
The rate at which your next dollar of income will be taxed.

Married Filing Jointly
A filing status married couples often choose, meaning both spouses are responsible for reporting any income earned and paying any taxes due.

Married Filing Separately
A filing status that is available to couples who are married, in the event that they want to file their taxes separately despite being married.

Medical Deduction
A deduction available for those who choose to itemize their deductions. You may qualify for the medical deduction if your qualifying medical expenses—such as Medicare premiums, prescription drugs and medical insurance co-pays for in-office visits—exceed 10 percent of your taxable income.

Mortgage Points
Fees paid to a lender at closing in order to secure a reduced rate on a mortgage. Points are typically fully deductible in the year you purchased your home.

Nonrefundable Tax Credits
Credits that reduce the amount of your income tax up to the amount of income tax you owe—they do not result in a refund if they total more than your current tax liability.

Payroll Taxes
Also known as "employment taxes," these taxes are withheld automatically from your paycheck by your employer to meet your Social Security and Medicare obligations. They are reported on your W-2.

Personal Allowances
The numbers you enter on a W-4 form to determine how much your employer will withhold to cover your federal income taxes.

Pretax Retirement Accounts
Retirement accounts, such as 401(k)s and IRAs, that offer an immediate deduction for your contributions—meaning these accounts are funded with pretax money. Withdrawals in retirement are taxed as ordinary income.

Premium Tax Credit
A tax credit designed to help cover the cost of insurance purchased through the Health Insurance Marketplace for households where income is 100 to 400% of the federal poverty level for that size of family.

Preparer Tax Identification Number (PTIN)
An identification number that professional tax return preparers are required to provide. This number is designated by the IRS.

Progressive Tax Code
A tax code designed so that people who make more money are taxed at a higher rate than people who make less money.

Property Taxes
Taxes levied at the state and/or local level, usually on real estate but sometimes on other large purchases, such as cars.

Qualifying Widow/Widower with Dependent Child
A filing status available to a taxpayer whose spouse has died during the current tax year. It gives qualifying widows and widowers the same tax benefits as those married filing jointly.

Refundable Tax Credits
Credits subtracted from the taxes you owe after deductions are calculated. These credits can result in a tax refund.

Regressive Tax Code
A tax code structured so those who make less money are taxed at a proportionally higher rate than people who make more.

Required Minimum Distributions (RMDs)
The minimum amount of assets people age 70½ and over must withdraw from their retirement accounts every year to avoid incurring a penalty. (RMDs do not apply to Roth IRAs.)

Retirement Saving Contributions Credit (the Savers Credit)
A credit available to lower- or moderate-income workers who have made a voluntary contribution to a retirement account, such as an IRA or employer-sponsored plan.

Roth 401(k)
A retirement account that functions like a traditional 401(k), but your contributions are made with after-tax dollars and are not subject to income tax when you make withdrawals in retirement.

Roth IRA
A retirement account funded with after-tax dollars. Your contributions and any earnings grow tax-free, and your withdrawals generally are not subject to income tax.

Self-Employment Tax
The tax self-employed people must pay to cover the employer portion of their Medicare and Social Security taxes.

Short-Term Capital Gains
Profits from a capital asset held for less than a year. Short-term capital gains are taxed at the same rate as wages and salaries.

SIMPLE (Savings Incentive Match Plan for Employees) IRA
A type of IRA that can be opened by any employer, including self-employed individuals. Much like a 401(k), a SIMPLE IRA allows employees to make pretax contributions.

SEP (Simplified Employee Pension) IRA
A retirement account designed for self-employed individuals that allows higher contribution limits than traditional IRAs do.

Single
A filing status for those who are unmarried, legally separated, divorced or widowed as of December 31 of the tax year.

Standard Deduction
A set dollar amount determined by the IRS that varies based on your filing status. (It is an alternative to choosing to itemize your deductions.) The amount usually changes yearly.

Tax Bracket
The range of taxable income taxed at a specific rate, as described by the IRS.

Tax Credit
An amount of money that reduces your tax liability on a dollar-for-dollar basis. Credits are typically offered in order to help offset certain expenses, such as buying a first home or child care costs.

Tax-Loss Harvesting
Selling an underperforming position before year-end to realize a loss that will offset gains you've earned on other holdings that year.

Taxable Income
Your total income minus adjustments, deductions and exemptions. Also known as adjusted gross income (AGI).

Traditional IRA
A retirement account in which contributions and earnings grow tax-deferred. Contributions to IRAs are generally tax-deductible.

W-2
A form issued by employers to document the tips and wages you've earned, as well as taxes that have been withheld during the tax period.

W-4
The IRS form that gives your employer information about how much money it is required to withhold from each paycheck to cover your federal income taxes.

Withholding
The income taxes withheld from your paycheck each pay period. Your employer remits this amount to the government on your behalf.

THE ESSENTIAL TAX GUIDE

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Lower Your Taxes & Save Money

Put more cash in your wallet this year! *The Essential Tax Guide* features hundreds of tips and tricks to help you get every tax break you deserve—and ensure you receive the biggest refund possible on your 2022 and 2023 returns.

Deductions for Homeowners, Medical Expenses, Education and More

▪

Retirement Tax Planning

▪

Credits, Exemptions and Exclusions

▪

Start a Small Business to Reduce Taxes

▪

Get Your Refund Faster

PLUS

Worksheets to Keep You Organized

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